



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

February 22, 2017

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Auditor of State Mary Mosiman today released an audit report on the City of Grimes, Iowa.

The City's receipts totaled \$23,921,424 for the year ended June 30, 2016, a 4.6% decrease from the prior year. The receipts included \$6,708,482 in property tax, \$1,344,848 from tax increment financing, \$253,968 from commercial/industrial tax replacement, \$6,233,575 from charges for service, \$1,434,020 from operating grants, contributions and restricted interest, \$605,019 from capital grants, contributions and restricted interest, \$6,565,263 of general obligation bond proceeds, \$700,000 of loan proceeds, \$58,325 from the sale of capital assets and \$17,924 from unrestricted interest on investments.

Disbursements for the year ended June 30, 2016 totaled \$19,716,057, a 9.6% decrease from the prior year, and included \$5,431,157 for capital projects, \$3,403,085 for debt service and \$2,969,314 for public safety. Also, disbursements for business type activities totaled \$4,124,546. The decrease in disbursements is due primarily to the purchase of the public works building in the prior year.

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 <https://auditor.iowa.gov/reports/1620-0719-B00F>.

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CITY OF GRIMES
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2016

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City of Grimes

Officials

(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tom Armstrong	Mayor	Jan 2018
Tami Evans	Mayor Pro tem	Jan 2016
Craig Patterson	Council Member	Jan 2016
Jill Altringer	Council Member	Jan 2018
Doug Bickford	Council Member	Jan 2018
Ty Blackford	Council Member	Jan 2018
Kelley Brown	City Administrator	Indefinite
Rochelle Williams	City Clerk	Indefinite
Deborah Gallagher	City Treasurer	Indefinite
Tom Henderson	Attorney	Indefinite

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tom Armstrong	Mayor	Jan 2018
Jill Altringer	Mayor Pro tem	Jan 2018
Doug Bickford	Council Member	Jan 2018
Ty Blackford	Council Member	Jan 2018
Eric Johansen	Council Member	Jan 2020
Jeremy Hemp	Council Member	Jan 2020
Kelley Brown	City Administrator	Indefinite
Rochelle Williams	City Clerk	Indefinite
Deborah Gallagher	City Treasurer	Indefinite
Tom Henderson	Attorney	Indefinite

City of Grimes



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

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 Grimes, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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 Grimes as of June 30, 2016, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grimes' basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 9 through 25 and 50 through 56, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 27, 2017 on our consideration of the City of Grimes' internal control over financial reporting and on 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 in considering the City of Grimes' internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

January 27, 2017

City of Grimes

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Grimes 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, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- The governmental activities property tax and tax increment financing receipts increased \$380,814 from fiscal year 2015 to fiscal year 2016. This is the result of the regular taxable valuation increasing from \$459,293,836 to \$487,144,499. Over the past nine years, the regular taxable valuation has grown from \$219,283,831 to \$487,144,499, resulting in an increase of \$267,860,668, or 122.1%.
- Receipts and transfers of the City's governmental activities decreased \$1,258,323 from fiscal year 2015 to fiscal year 2016. An \$8,500,000 bond issue in 2015 versus bond proceeds of \$6,565,263 in 2016 accounts for most of this increase. There was a tax receipt increase of \$380,814, as indicated above, along with the tax replacement proceeds increase of \$170,031. After subtracting the bond proceed difference, the lease, grants and other general receipts, the remaining governmental receipts increased \$620,825, or 5.5%. Fiscal year 2016 continued to be very busy for the City. The 70th Street/East 1st Street project was underway, North Sports Complex, Autumn Park development as well as continuing to work through the development of the ASR (Aquifer Storage Recovery Well) and the installation of the first of two Reverse Osmosis Systems for the Water Treatment Plant.
- Building permit fees increased significantly from fiscal year 2014 to fiscal year 2015 (from \$409,005 to \$631,733), but decreased to \$506,657 in fiscal year 2016. That being said, the City of Grimes still ranks 3rd across the Des Moines metro in building permits issued. In addition, plat infrastructure revenue increased, which indicates that more plats are available for housing construction. Plat revenue increased from \$265,851 to \$329,755, which is an increase of 24%. Overall, the picture that is being painted remains one of overall growth and healthy development. New plats continue to be up and going strong. Permitting and construction are on the move and the City continues to be on the forefront of development.
- Commercial and industrial valuations have grown steadily over the last ten years. In fiscal year 2006, the commercial and industrial valuation total was \$87,509,797. In fiscal year 2016, that same total was \$188,514,229, an increase of 115.4% over the last ten years. From 2015 to 2016, there was an increase of \$11,958,395 from \$176,555,834 to \$188,514,229, or 6.7%. A growing community always needs to maintain a healthy balance of commercial and residential development to help maintain taxes at a consistent level. Currently, commercial valuation accounts for 34.4% of the City's taxable valuation.
- The cash balance at June 30, 2016 increased \$4,205,367 to \$21,477,383. In fiscal year 2015, \$2,700,000 was disbursed from existing cash balances to purchase the new \$2 million Public Works facility and \$700,000 was disbursed to prepay for the fire truck. The \$700,000 was reimbursed with loan proceeds and Road Use Tax (RUT) is reimbursing the General Fund over the next few years for the Public Works facility. The cash balance of the Debt Service Fund increased significantly due to the refunding proceeds of the 2007 bonds in the amount of \$2,151,214, which will be disbursed when the bonds can be refunded. The ending cash balances of business type activities also increased \$421,894. In addition, the proceeds from RUT increased \$340,402 due to the special census population increase.

- Road use tax receipts, as noted above, have increased approximately 45.4% over the last three years, from \$823,394 to \$1,197,842. All cities in Iowa receive RUT funds. These are distributed on a per capita basis. The *Code of Iowa*, Chapter 312.14, requires cities which receive an allotment to prepare an annual report showing receipts and disbursements for street-related activities. This annual report is not limited to RUT funds. It includes all receipts and disbursements spent on streets. This report is called the Street Finance Report from the Iowa Department of Transportation (IDOT) and is filed with IDOT each year. The amount disbursed was \$97.50 per person for fiscal year 2015, \$98.50 for fiscal year 2016 and is expected to rise again to \$99.00 per person for fiscal year 2017.

The Grimes Community Complex (the old Dallas Center-Grimes Middle School) was opened in the summer of 2006 for use by the Summer Recreation program. The use of the building has been expanded to include a large banquet hall, which was reconstructed by a church who leases out four rooms for joint use with the public. Taekwondo, jazzercise and many recreational clubs use the building. The Grimes Historical Room was opened six years ago in the sprint and was the result of an Eagle Scout project. The receipts from these programs has remained relatively consistent over the last few years.

All in all, the City continues to stand strong and continues to grow. As always, the philosophy of the City Council and City staff continues to focus on efficiency and quality of services. Good solid management practices continue to facilitate prudent uses of resources.

- Disbursements for the City's governmental activities decreased \$2,927,757, or 15.8%, from fiscal year 2015 to fiscal year 2016. The net decrease in disbursements, after eliminating the effects of capital projects, debt service and the \$2.7 million expended for the public works building and the fire truck, is a decrease of \$195,999, from \$6,953,268 in fiscal year 2015 to \$6,757,269 in fiscal year 2016. Some of the major differences were a decrease in spending in the culture and development function because park improvement funds were not used in fiscal year 2016 and the library model was completed in fiscal year 2015. Spending for the general government function was less because the city hall remodel was completed in fiscal year 2015 and a majority of the census expenses were in fiscal year 2015. Public safety function disbursements increased because of additional personnel costs and the additional equipment needed to equip the new fire truck. The Polk County Sheriff's contract was also increased and building development fees were up because of the increase in plat development.
- No doubt, the water issue was the priority over the last five years. The drought of the summer of 2012 had long-lasting effects on the City's shallow wells. The project to build a new Jordan well at over 2,800 feet was awarded in late winter of 2012 at an approximate cost of \$2,000,000. Furthermore, the City sent out a Request for Proposals (RFP's) for the operation of the water and wastewater plants. A committee was formed to review the RFP's and interview potential management companies. In the end, PeopleService, which had operated the plants for 18 years, was not chosen and U.S. Water Services Corporation (USW) was chosen and started July 1, 2014. The ASR continues to be under construction with pump and testing problems. The light at the end of this tunnel is that the City tested and has implemented a new Reverse Osmosis (RO) system. Just recently, an even larger RO system has been approved and loan proceeds of approximately \$3.5 million were received to finance this system. The end result is much higher quality water for the citizens of Grimes that is coming from the Jordan Well, which is a more reliable water source.
- The City's governmental activities total cash basis net position increased approximately 31.7%, or \$3,783,473, from June 30, 2015 to June 30, 2016. A majority of this increase can be accounted for by the timing of the bond proceeds and the money being held in escrow for the refund of the 2007 bond issue.

The bond issues over the last several years have financed exciting improvements benefiting all of the citizens in Grimes as well as furthering the economic development of this area. The recent \$3.5 million bond issue approved in April of 2016 financed a larger Reverse Osmosis system for the water plant. The City has approved three bond issues in the last six years. The first was a \$10 million bond issue approved in November 2009. The use of the 2010 bond issue was as follows: the demolition of the elevator buildings (\$270,000), the GCC HVAC project (\$463,000), the Comprehensive Plan (\$85,000), Map updates (\$50,000), Phase I Storm Water Implementation (\$70,000), SE Capitol City Pavement repairs (\$165,000), E 1st St Improvements 2009 (\$1,300,000), SE 37th Street Overlay (\$625,000), S James Improvements (\$1,700,000), NW 142nd and 82nd Ave overlay (\$100,000), NW 78th overlay (\$50,000), Gateway Dr Extension (\$270,000), 1st Street (Highway 44) (\$2,772,000), Outfall Trunk Sewer (\$1,400,000), water main extension and water tower painting (\$370,000) and QT Improvements (\$22,500). The rest was either part of the bonding fees or was disbursed on other infrastructure improvements. In 2013, a \$6.0 million bond was issued to fund the reconstruction of SE Main Street (\$3,100,000), the North James Street overlay (\$385,000), a NW Transportation Study (\$100,000), Alley Improvements (\$75,000), NW 100th and SE 37th Street Improvements (\$656,000), Autumn Park Drainage Improvements (\$325,000), Chevalia Bridge and Trail work (\$110,000), SE 19th Street (\$700,000), NPDES permit (\$115,000) and general road improvements (\$497,615) and in June 2015 an \$8.5 million bond issue was passed for improvements as follows: Grimes Maintenance Facility (\$700,000), Autumn Park road resizing (\$75,000), NW 70th Improvements with Johnston (\$866,900), North Sports Complex (\$1,400,000), North James Bridge (\$444,000), North James and Beaverbrooke Boulevard (\$2,200,000), SE Gateway Dr (\$275,000), NE Main (\$2,200,000) and SE 37th (\$521,836).

- The General Fund cash balance increased \$1,100,657. The Special Revenue, Road Use Tax Fund cash balance increased \$407,368. The Debt Service Fund cash balance increased \$2,178,298 because of the funds being held in escrow and the proceeds accumulating from developer assessments are not sufficient for prepayment on the bond at this time and proceeds from the completion of the SE 37th Street assessment project. In addition, Build America Bond interest is credited to the Debt Service Fund. The Capital Projects Fund balance increased \$79,200. Although the proceeds from the \$3.5 million bond issue were credited here, the expenditures were \$5,431,157. The other nonmajor governmental fund cash balances increased \$24,705. The City Council continues to be prudent in its budgeting and has heeded previous cautions by auditors to use fund balances versus tax collections wherever possible.

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 Cash Basis Statement of Activities and Net Position. 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.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's 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 Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

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

The Cash Basis Statement of Activities and Net Position 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 system, the sanitary sewer system, the solid waste disposal system and the storm water system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These 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 Tax Increment Financing, 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.

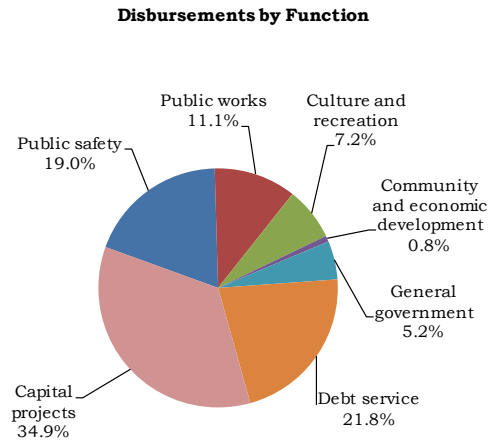
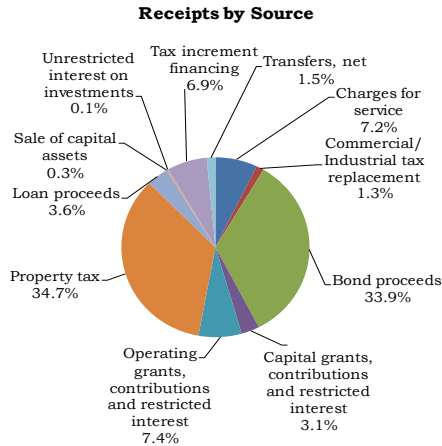
- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City, and the Solid Waste and Storm Water Funds.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The cash balance increased over last year, from approximately \$11.923 million to approximately \$15.706 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year ended June 30,	
	2016	2015
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 1,387,142	1,414,368
Operating grants, contributions and restricted interest	1,434,020	1,094,544
Capital grants, contributions and restricted interest	605,019	850,990
General receipts:		
Property tax	6,708,482	6,374,263
Tax increment financing	1,344,848	1,298,253
Commercial/industrial tax replacement	253,968	83,937
Unrestricted interest on investments	17,917	14,216
Bond proceeds	6,565,263	8,682,736
Loan proceeds	700,000	400,000
Sale of capital assets	58,325	-
Transfers, net	300,000	420,000
Total receipts and transfers	<u>19,374,984</u>	<u>20,633,307</u>
Disbursements:		
Public safety	2,969,314	3,077,667
Public works	1,734,554	3,875,949
Culture and recreation	1,117,152	1,512,321
Community and economic development	118,560	143,281
General government	817,689	1,044,050
Debt service	3,403,085	2,845,086
Capital projects	5,431,157	6,020,914
Total disbursements	<u>15,591,511</u>	<u>18,519,268</u>
Change in cash basis net position	3,783,473	2,114,039
Cash basis net position beginning of year	<u>11,922,507</u>	<u>9,808,468</u>
Cash basis net position end of year	<u>\$ 15,705,980</u>	<u>11,922,507</u>



The City's total receipts and transfers for governmental activities decreased 6.1%, or \$1,258,323. Most of this is due to the timing of the receipt of proceeds from the \$8.5 million bonds issued in fiscal year 2015 and the \$6.5 million of bond proceeds received in fiscal year 2016. It is important to reiterate that there was a significant increase in tax receipts resulting from an increase in regular taxable valuation, from \$459,293,836 to \$487,144,499. Regular taxable valuation increased 6.1%, or \$27,850,663. Property tax receipts, not including TIF collections or other city tax, increased \$334,219. TIF collections increased \$46,595. The total disbursements decreased \$2,927,757, or 15.81%. Most of this decrease is accounted for in the use of outstanding balances for the purchase of the \$2 million public works facility and the fire truck.

The City's property tax rates for fiscal year 2016 increased ever so slightly, with a tax rate of \$12.91377 per \$1,000 of taxable valuation for fiscal year 2016 versus \$12.91374 per \$1,000 of taxable valuation for fiscal year 2015. The rollback percentage increased from 54.002% in 2015 to 55.7335% in 2016. Residential/commercial property tax decreased from 95% in 2015 to 90% in 2016. The residential rollback percentage is projected to decrease slightly for fiscal year 2017 to 55.625% and the commercial/industrial tax will remain the same. The tax rate, coupled with the increase in the rollback, has the result of increasing the net city tax paid by the homeowner of a \$150,000 home by \$25.67. Note, however, the tax levy to property owners is affected by other factors, such as an overall increase or decrease in the valuation of their property or any changes in school, county or other tax levies. The DC-G School District's portion of the property tax rates has increased from \$17.85093 in fiscal year 2015 to \$17.95314 in 2016. Other tax rate increases per \$1,000 of taxable valuation include: County up \$.139, Hospital up \$.095, Regional Transit up \$.065 and Area XI College up \$.018.

The cost of all governmental activities this year was approximately \$15.592 million compared to approximately \$18.519 million last year. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 28-29, the amount taxpayers ultimately financed for these activities was only \$12.165 million because \$1,387,142 of the cost was paid by those directly benefiting from the programs. \$1,434,020 was paid by other governments and organizations which subsidized certain programs with operating grants, contributions and restricted interest and capital grants, contributions and restricted interest (developer agreements, etc.) of \$605,019 were received. Overall, the City's governmental activities cash basis net position increased from \$11.923 million at June 30, 2015 to \$15.706 million at June 30, 2016, principally due to the timing of the receipt of the bond proceeds in late June of 2016 and spending the proceeds from the previous bond issue on capital projects in fiscal 2016. The City paid for the remaining "public benefit" portion of governmental activities with \$8.053 million in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements, \$380,814 of which was new tax revenue.

Changes in Cash Basis Net Position of Business Type Activities		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 2,430,025	2,437,575
Sewer	1,600,671	1,684,498
Solid waste	354,810	324,701
Storm water	460,927	415,914
General receipts:		
Unrestricted interest on investments	7	142
Total receipts	4,846,440	4,862,830
Disbursements and transfers:		
Water	2,266,826	1,948,567
Sewer	1,194,107	809,451
Solid waste	449,114	400,057
Storm water	214,499	122,760
Transfers, net	300,000	420,000
Total disbursements and transfers	4,424,546	3,700,835
Change in cash basis net position	421,894	1,161,995
Cash basis net position beginning of year	5,349,509	4,187,514
Cash basis net position end of year	\$ 5,771,403	5,349,509

Total business type activities receipts for fiscal year 2016 were approximately \$4.846 million compared to approximately \$4.863 million last year.

The cash balance for business type activities at June 30, 2016 increased \$421,894 over the prior year. Receipts remained the same and disbursements and transfers increased 19.6%. Total disbursements and net transfers for the fiscal year increased from approximately \$3.701 million last year to approximately \$4.424 million for fiscal year 2016. This was an increase of \$723,711, or 19.6%.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Grimes completed the year, its governmental funds reported a combined fund balance of \$15,705,980, an increase of \$3,783,473 from last year's total of \$11,922,507. 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 \$1,100,657 from the prior year to \$3,848,620. This increase was largely due to the repayment of the financing for the fire truck and partial refund for the Public Works facility. Of course, as stated many times already, additional tax revenue of \$380,814 was also received. General Fund receipts increased \$213,875 and disbursements decreased \$2,855,043. The City continues to monitor taxes and ending fund balances to determine the ideal balance between having money in reserve for unforeseen emergencies versus keeping taxes at a consistent level.

- The Special Revenue, Road Use Tax Fund cash balance increased \$407,368 from June 30, 2015 to June 30, 2016 and is now currently \$891,521. The City continues to work on pavement projects throughout the City and is committed to the continued use of road use tax receipts for major construction projects versus operation of the street department.
- The Special Revenue, Tax Increment Financing (TIF) Fund was established years ago to finance projects whereby an investment by the City in infrastructure results in an overall larger tax base. The premise of the use of TIF can be illustrated in this example. The City designated the area east of Little Beaver to Highway 141 and south to Urbandale as an urban renewal area. The City issued bonds and used TIF financing to pay for the sewer, water, road improvements and the signals at 54th Street and Highway 141. As a result of that investment, this area has been converted from fields into businesses. The increase in tax receipts obtained from the growth in this urban renewal area is first used to pay off the debt incurred to extend the utilities to this area. After the debt has been paid, the City, County and School District gain the benefit of the increased tax receipts. The resulting benefit to the citizens of the City and the Dallas Center-Grimes School District is an increase in the valuation of the City, resulting in increased tax receipts to provide services. Traditionally, the City Council has only used TIF financing to promote commercial or industrial development. These are taxed at 90% of their valuation versus residential valuation which is taxed at 55.7335% for fiscal year 2016. The City is currently certifying TIF debt for the payment of the utilities extended in the example above, transportation, trail system planned improvements, Sports Complex North, signals at Highway 141 and NW 62nd/SE 19th Street, the fire station addition, Sports Complex North, signals at Highway 141 and NW62nd/SE 19th Street, the fire station addition and the paving of James Street. The area east of Highway 141 South and south of South 11th Street was amended into the urban renewal area so TIF financing could be used for the signals at Highway 141 and NW 62nd/SE 19th Street and for the South 11th Street project. The City has also completed the process of amending the remaining portion of the annexed area into the urban renewal area to give the City ultimate flexibility for the use of TIF for economic development, as well as improvements to lower valued properties. TIF has recently been used in developer agreements, whereby the developer fronts the money for the infrastructure improvements. The developer is then repaid its investment from the tax generated from the increment in valuation caused by development of the property. The developer is given the incentive to repay its self-incurred debt from the timely development of the property. TIF has most recently been used to offset tax abatement to give warehousing structures in the City the same advantage as they would have in neighboring cities with slightly lower tax rates.

At the end of the fiscal year, the TIF cash balance was \$55,206, a decrease of \$6,755 from the previous year. The City only certifies enough TIF receipts to pay off the current year's portion of the debt each year. If the resulting taxes generated from the increment in valuation are more than needed to make the bond payments, the City, the County and the School District receive the benefit of the tax revenue. This year, the City received TIF of \$1,344,848 as compared to \$1,298,253 in fiscal year 2015.

- The Debt Service Fund cash balance increased to \$4,979,532 during fiscal year 2016 from \$2,801,234. The increases are due to interest received from the Build American Bonds and the receipt of developer reimbursement proceeds from the South 19th Street and Little Beaver assessment projects, as well as the 54th Ave. Road, the South 6th Street, the SE 37th Street and the East 1st Street assessment projects. The developer reimbursement proceeds will be held until the bonds can be called. As noted above, the additional increase of \$2,151,214 is due to the receipt of bond proceeds being held in escrow until 2017 to refund the 2007 bond issue.

- The Capital Projects Fund cash balance increased from \$5,336,609 to \$5,415,809 in fiscal year 2016. Revenues decreased \$261,452 and disbursements decreased \$589,757. Capital projects vary from year to year and are dependent on the timing of bonding proceeds and the timing of the large capital projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- In fiscal year 2016, the Enterprise, Water Fund cash balance decreased \$36,794 to \$2,140,764. This balance allowed for \$200,000 to be transferred to the Capital Projects Fund. Although the receipts remained relatively the same, \$2,430,025 in 2016 and \$2,437,575 in 2015, there was an increase in disbursements of \$318,259 from fiscal year 2015 to fiscal year 2016.
- In fiscal year 2016, the Enterprise, Sewer Fund cash balance increased \$206,564, from \$2,598,484 to \$2,805,048. Receipts decreased \$83,827 and disbursements increased \$384,656. This balance also allowed for \$200,000 to be transferred to the Capital Projects Fund.
- Although these are nonmajor funds, the Solid Waste Fund continues to be subsidized using emergency levy tax dollars. Also of note, the City Council enacted the storm water utility fee in January 2014. \$354,810 was received in fiscal year 2016 for solid waste and \$460,927 was received for storm water.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 10, 2016. This amendment provided for an overall increase in budgeted receipts and other financing sources of \$2,302,872 after subtracting out for the transfer. Specifically the increases were for licenses and permits of \$96,497 because of the increase in building permits, \$23,800 for money and property, \$379,622 for intergovernmental because of the large increase in RUT funds, \$(90,250) in charges for service because utilities revenues weren't as high as anticipated and \$1,858,000 for other financing sources due to bond proceeds. The total amended for disbursements was \$1,697,904 after accounting for the transfer. Budgeted disbursements for public safety and culture and recreation decreased \$73,320 and \$122,796, respectively. Public Works budgeted disbursements increased \$187,500 because of the purchase of additional equipment. General government budgeted disbursements increased \$124,482 because of an increase in legal fees for developments, census timing and salaries. Business type budgeted disbursements increased \$561,578 because of lime removal and plant repairs. Capital projects budgeted disbursements also increased \$1,000,000 because of the timing of the RO system. The timing of capital projects is typically hard to plan because of the timing of soliciting bids and the actual construction itself which can have unanticipated delays. The City traditionally amends the budget in the last quarter of the fiscal year because the exact timing and payment of capital improvement projects is seldom known at the time the original City budget is certified in March of the previous year.

When all was said and done and the final numbers were calculated as of June 30, 2016, the variations between what was budgeted and what was actually received or disbursed are as follows. First of all, the receipts that were received were less than 3 percent over what was budgeted. After reducing the remaining unexpended balance for disbursements for capital projects, the difference between what was budgeted and what was expended was approximately 4 percent. The public works function had \$356,903 unexpended in the RUT fund due to the timing of street projects and the culture and recreation function had \$96,827 remaining at year end. Mowing, fertilizing, equipment purchases and park development all can vary from year to year depending on the climate and the overall needs of the park system.

DEBT ADMINISTRATION

At June 30, 2016, the City had approximately \$34.415 million of bonds and other long-term debt outstanding compared to approximately \$30.431 million at June 30, 2015, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2016	2015
General obligation bonds	\$ 28,085	24,610
Revenue bonds	5,536	5,504
Loan agreements	240	317
Lease-purchase agreements	554	-
Total	\$ 34,415	30,431

In the fall of 2012, a \$6.0 million bond was issued to fund the reconstruction of SE Main Street (\$3,100,000), the North James Street overlay (\$385,000), a NW Transportation Study (\$100,000), Alley Improvements (\$75,000), NW 100th and SE 37th Street Improvements (\$656,000), Autumn Park Drainage Improvements (\$325,000), Chevalia Bridge and Trail work (\$110,000), SE 19th Street (\$700,000), NPDES permit (\$115,000) and general road improvements (\$497,615). The City also obtained a new SRF loan for the construction of the new Jordan well in the amount of \$2,432,000. In addition, the City continues to certify TIF debt to lower the amount of property tax needed for debt service. The amount of TIF debt certified for development and rebate agreements subject to annual appropriation was approximately \$1,175,276 at June 30, 2012, \$1,332,000 at June 30, 2013, \$1,155,957 at June 30, 2014, \$1,072,175 at June 30, 2015 and \$1,724,601 at June 30, 2016. The \$8.5 million bond issue was passed in 2015 and the proceeds will be used as follows: Grimes Maintenance Facility (\$700,000), Autumn Park road resizing (\$75,000), NW 70th Improvements with Johnston (\$866,900), North Sports Complex (\$1,400,000), North James Bridge (\$444,000), North James and Beaverbrooke Boulevard (\$2,200,000), SE Gateway Drive (\$275,000), NE Main (\$2,200,000) and SE 37th (\$521,836). In 2016, a \$3.5 million bond issue was passed to finance a Reverse Osmosis System for the water treatment plant. It is worthy to note that because of the ongoing lower interest rates, the City refinances bond issues whenever possible to save on interest costs.

The City's bond rating was last reevaluated in April of 2016. The end result was continued great news for the City as the bond rating was upgraded. As reported by Moody's, "Moody's upgrades Grimes, IA's GO to Aa2; assigns Aa2 to Series 2016."

SUMMARY RATING RATIONALE

Moody's Investors Service has upgraded the City of Grimes, IA's general obligation unlimited tax (GOULT) to Aa2 from Aa3. Concurrently, Moody's has assigned a Aa2 rating to the City's \$6.1 million General Obligation Water Improvement and Refunding Bonds, Series 2016. Post-sale, the City will have \$28.2 million in outstanding GOULT debt. The Aa2 rating reflects the City's rapidly growing and affluent tax base favorably located within the Des Moines (Aa2 stable) metropolitan area; healthy financial profile; above average debt burden and low unfunded pension liabilities.

CREDIT STRENGTHS

- Rapidly growing tax base favorably located within the Des Moines metropolitan area
- Healthy financial profile characterized by healthy reserve levels and prudent management
- Modest unfunded pension liabilities

CREDIT CHALLENGES

- Elevated debt profile
- Smaller tax base size relative to similarly rated entities

RATING OUTLOOK

Outlooks are generally not assigned to local government credits with this amount of debt.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Significant tax base growth
- Moderation of the City's debt burden
- Further bolstering of operating fund reserve levels

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Depreciation of the City's tax base
- Reduction in operating fund reserves or available liquidity
- Material growth of the City's debt burden

RECENT DEVELOPMENTS

Since the city's last rating report, audited results for fiscal 2015 have become available and reflect a reduction in General Fund reserves of \$1.7 million, due largely to one time capital expenditures. The City plans to fully reimburse the General Fund over the next three fiscal years. Tax base growth totaled 15.2% in 2015, increasing the City's full valuation to \$977 million.

DETAILED RATING CONSIDERATIONS

ECONOMY AND TAX BASE: RAPIDLY GROWING TAX BASE LOCATED IN THE DES MOINES METRO AREA

We expect the City's tax base to continue to grow given its favorable location in the Des Moines metropolitan area. The City is located approximately 10 miles northwest of the Iowa (Aaa stable) state capital of Des Moines with easy access to the Interstate 80 and Interstate 35 transportation corridors. The City's moderately-sized \$977 million tax base is primarily residential and has grown at a rapid average annual rate of 7.2%. The City's population increased 62% to 8,246 between 2000 and 2010, mirroring similarly rapid population increases in recent decades. A special census conducted in December of 2015 reflected a population of 11,423. The City is bordered to the north and west by unincorporated land available for annexation. Recent tax base growth has been driven by increased development activity and appreciation of existing residential housing stock. The value of building permits issued in 2014 and 2015 totaled \$121 million and \$72 million, respectively, and represents a significant increase from 2013's figure of \$36 million. Management expects the City's strong building permit activity to continue over the near to medium-term. A 400 acre mixed use development is expected to be completed over the next five years, adding 3,000 residents by 2020.

The City's tax base has some moderate concentration as the ten largest taxpayers accounted for 14% of taxable valuations in 2015.

The City's largest taxpayer Mid American Energy accounted for 3% of taxable valuation and reportedly maintains stable operations.

Resident income levels exceed that of the nation and have steadily improved in recent years. As of 2014, median family income within the City was estimated at 148.2% of the national figure. Fifteen years prior in 1999, median family income within the City was estimated at 122% of the nation. At 3.3% as of December 2015, the City's unemployment rate is lower than the state and national figures of 3.6% and 4.8%, respectively, highlighting resident access to multiple employment centers located within the metropolitan area.

Moody's expects the City's financial profile to remain healthy given ample reserves and prudent financial management. Prior to fiscal 2014, the City had posted six consecutive General Fund operating surpluses dating back to fiscal 2009. In fiscal 2015, the City originally budgeted for a draw on General Fund reserves of \$2.8 million for one-time capital purchases, but ended the year with a more moderate \$1.7 million draw on General Fund reserves due to conservative budgetary assumptions. Inclusive of the recent draw, General Fund reserves totaled \$2.7 million and a still healthy 43% of General Fund revenues. Favorably, the City intends to fully repay the \$2.0 million to the General Fund by 2019 from bond proceeds and transfers from the Road Use Tax Fund. Across all operating funds (combined General, Debt Service and Employee Benefits funds) at the close of-fiscal 2015, available reserves totaled \$5.7 million and a healthy 61.0% of operating fund revenues. The City plans to close fiscal 2016 with a General Fund surplus of at least \$900,000. The fiscal 2017 budget reflects a General Fund surplus of \$330,000 and includes expenses associated with the hiring of seven additional employees.

Property taxes are the City's primary revenue source, accounting for approximately 60% of operating revenues in fiscal 2015. The City levies at the full state-imposed property tax cap of \$8.10 per \$1,000 of assessed valuation and fully utilizes the \$0.27 Emergency Levy. The City also utilizes separate levies for debt service and employee benefits; however, the City has approximately \$500,000 in revenue raising flexibility under the Employee Benefits and Insurance levies. In addition to the City's moderate property tax revenue raising flexibility, City Council may elect to increase or broaden the scope of its franchise fee, which currently stands at 1% for cable providers.

Liquidity

As of fiscal 2015, City operating funds held net cash of \$5.7 million and a sound 61.0% of revenues. The City's cash position is expected to improve over the near-term due to anticipated annual operating surpluses.

DEBT AND PENSION LIABILITIES: ELEVATED DEBT PROFILE; LOW PENSION LIABILITIES

The City's elevated debt profile will likely remain manageable given limited plans for additional debt over the near-term. Net of debt expected to be repaid by the City's self-supporting water enterprise, the City's direct debt burden is equivalent to an above average 2.5% of full valuation and 2.7 times operating revenues. At 6.1%, the City's overall debt burden is also high and largely reflects debt issued by area school districts. Debt service expenditures accounted for an above average 30% of operating revenues in fiscal 2015. The City's fixed costs (combined pension, other post-employment benefit and debt service expenditures) totaled \$3.3 million and 35% of operating revenues in fiscal 2015. The City's near-term debt plans are limited and include approximately \$10 million in potential bonding within the next four fiscal years for infrastructure improvements.

Debt Structure

All of the City's debt is fixed rate. Amortization of existing debt is average as 70% of principal is expected to be retired over the next ten years.

Debt-Related Derivatives

The City has no derivative exposure.

Pensions and OPEB

Grimes' three year average Moody's adjusted net pension liability (ANPL), though fiscal 2015 is \$4.1 million, equivalent to 0.4% of full valuation and 0.4 times operating revenue. The ANPL is based upon our allocation of the reported unfunded liabilities of one multiemployer cost-sharing pension plan, the Iowa Public Employees Retirement System (IPERS). Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the City's reported liability information, but to improve comparability with other rated entities. The actuarial valuation dates for the cost sharing plan is June 30, 2015.

The City operates a single-employer health benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. The plan is funded on a pay-as-you-go basis. In fiscal 2015, the City contributed \$284,000.

MANAGEMENT AND GOVERNANCE: VERY STRONG INSTITUTIONAL FRAMEWORK AND PRUDENT MANAGEMENT

Iowa cities have an institutional framework score of "Aaa," or very strong. Property taxes, which are the primary revenue stream, are highly predictable despite recent property tax reform. Even with property tax caps on general and emergency levies, cities have strong revenue-raising flexibility due to various additional levies, including an unlimited levy for employee benefits. Expenditures mostly consist of personnel costs, which are highly predictable. Cities have a moderate ability to reduce expenditures due to the presence of employee unions. Many cities have elevated debt and pension burdens, but these liabilities are generally funded with unlimited tax levies.

Grimes' management team has a history of positive budget to actual variances for both operating revenues and expenditures. Management maintains sufficient revenue raising flexibility and has a strong history of balancing operating revenues and expenditures.

LEGAL SECURITY

The City's GOULT debt, including the Series 2016 bonds is ultimately secured by a dedicated property tax levy, unlimited as to rate and amount. While ultimately secured by the city's GOULT pledge, a portion of the debt service is expected to be paid from water enterprise revenues.

USE OF PROCEEDS

Proceeds from the Series 2016 bonds will be used to advance refund certain maturities of the City's Series 2007 bonds for an estimated net present value savings of 5.4%. Remaining proceeds will be used to fund improvements to the City's water treatment facility.

OBLIGOR PROFILE

The City of Grimes is located approximately 10 miles northwest of Des Moines, in Polk County. As of December 2015, the city's population was 11,423 residents.

METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

RATINGS

- General Obligation Water Improvement and Refunding Bonds, Series 2016: Aa2
- Rating Type: Underlying LT
- Sale Amount: \$6,110,000
- Expected Sale Date: 04/20/2016
- Rating Description: General Obligation

The City's outstanding general obligation debt, including annually appropriated rebate agreements of \$7.940 million, total approximately \$28.879 million and is significantly below its constitutional debt limit of approximately \$42.384 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Grimes' elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget, tax rates and fees charged for various City activities. One of the factors the City Council will have to consider is a potential increase in garbage rates. In the past, tax receipts have been used to subsidize this Enterprise Fund. As well, the City Council has enacted a storm water utility fee and will now need to prioritize the maintenance and repairs needed to the water ways throughout the City. In addition, this fee will be used to pay for the NPDES Phase II Stormwater Regulations. As more and more regulations are being put in place to regulate the water going into streams and lakes, the costs to manage these requirements continue to escalate. Most of the metro cities have a storm water utility in place which pays for these costs.

The City's valuation continues to significantly increase. Valuation, excluding TIF designated areas, rose from \$747,302,773 in fiscal year 2015 to \$805,824,032 in fiscal year 2016. That is an increase of \$58,521,259 or 7.8%. In fiscal year 2017, the valuation has increased to \$922,764,210. That's an increase of \$116,940,178 or 14.51%. The actual step increases over the years are as follows: 2009-2010, 13.8%, 2010-2011, 13.6%, 2011-2012, 4.9%, 2012-2013, 2.7%, 2013-2014, 5%, 2014-2015, 6%, 2015-2016, 7.8% and 2016-2017, 14.51%. General property tax receipts are projected to increase \$838,690. Building permits have remained relatively steady. In fiscal year 2010, there were 228 single family permits valued at \$32,040,289, 116 multi-family permits valued at \$7,719,604 and 3 commercial permits valued at \$10,108,383. In fiscal year 2011, there were 98 single family permits valued at \$13,735,402, 7 multi-family permits valued at \$725,322 and 6 commercial permits valued at \$13,319,979. In fiscal year 2012, there were 115 single family permits valued at \$16,720,225, 8 multi-family permits valued at \$3,879,960 and 4 commercial permits valued at \$9,191,831. In fiscal year 2013, there were 143 single family permits valued at \$22,581,235, 11 multi-family permits valued at \$7,096,000 and 21 commercial permits valued at \$5,335,157. In fiscal year 2014, there were 169 single family permits valued at \$31,774,199, 12 multi-family permits valued at \$6,492,600 and 17 commercial permits valued at \$20,417,560. In fiscal year 2015, there were 227 single family permits valued at \$43,461,903.39, 2 multi-family permits valued at \$7,019,792.12 and 24 commercial permits valued at \$30,634,300.94 and, in 2016, there were 165 single family permits valued at \$34,954,034, 46 multi-family permits valued at \$5,159,382 and 12 commercial permits valued at \$15,340,608. Historically, the percentage changes of the value of the single family permits is as follows: 2009 to

2010, 147% increase, 2010 to 2011, 57% decrease, 2011 to 2012, 21% increase, 2012 to 2013, 35% increase, 2013 to 2014, 40% increase, 2014 to 2015, 36.7% increase and 2015 to 2016, 19.5% decrease. The current number of developing plats and lots are as follows:

<u>PLAT NAME</u>		<u># OF LOTS</u>
Caymus Park Plat 1	Townhomes	41 Units
North Park Estates		22
Bridge Creek Plat 3		20
Silkwood Meadows		30
Meadowlark South Plat 4		33
Autumn Park Plat 3		57
Bridge Creek Plat 2		20
Beaverbrooke West Plat 8		129
Brook Ridge Plat 1		29
Beaverbrooke West Plat 9		73
Bridge Creek Plat 5		13
Brooke Ridge Plat 1		29
Autumn Park Plat 4		26
Heritage Plat 1		18
Glenstone Meadows	Townhomes	41 Units
Caymus Park Plat 2	Townhomes	41 Units
Kennybrook South		85
Meadowlark South Plat 4		33
Meadowlark South Plat 6		48
Brooke Ridge West Plat 3		30
Autumn Park Plat 5		50
Destinaiton Ridge Plat 4	Multi Family	384 Units
Autumn Park Plat 6		34
Chevalia Valley Plat 2		32
Brooke Ridge Plat 2		24
Heritage Plat 3		76
Kennybrook South Plat 1		(25) part of KS
Pepperwood Glen	Multi-Family	126 Units
Chevalia Pointe		13
Heritage Plat 3		68
Heritage Plat 4		64
Heritage Plat 7		12
North Pointe Townhomes		36 Units

In addition, the economy is a factor. This is from the U.S. Census Bureau from our special census in 2015. Our population increased from 8,246 in 2010 to 11,423 in 2015. This is an increase of 3,177, or 38.52%.

Characteristics -	Number	Percent	U.S.
In labor force (population 16 ears and over)	5,745	84.7%	63.3%
Mean travel time to work in minutes (population 16 years and over)	21.3	(X)	25.9%
Median household income (dollars)	\$77,652	(X)	53,889
Median family income (dollars)	86,042	(X)	72,165
Per capita income (dollars)	33,394		28,930
Families below poverty level	43	2.5%	10.4%
Individuals below poverty level	183	3.1%	13.5%

Housing Characteristics	Number	Percent	U.S.
Single-family owner-occupied homes	3,324	100.0%	
Median value (dollars)	\$177,500	(X)	\$178,600
Median of selected monthly owner costs	(X)	(X)	
With a mortgage	1,397	(X)	1,492
Not mortgaged	602	(X)	458

(X) Not applicable

Source: U.S. Census Bureau, Summary File 1 (SF 1) and Summary File 3 (SF 3)

The City currently has continuing projects under construction, as follows: The ASR (aquifer storage recovery) well project is now almost complete. This project, if successful, could provide the needed water storage to delay potential improvements to the water plant by 3-5 years. The premise of this project is the water plant can pump extra water into this well for storage during those times of year when water consumption is lower than the capacity of the plant. During times when the plant is at capacity, water can be pumped from the storage well to provide additional water into the system so increasing the capacity of the plant can be delayed. This also provides additional redundancy and additional sources in the event the supply from the wells is compromised for a short period of time. In fiscal year 2014, SE 19th Street was completed. Sewer was extended to the R&R development on the southeast corner of South James Street and SE 37th to provide service to a 120,000 SF warehouse development which will ultimately build out to over 250,000 SF. Improvements were made to the Glenstone Park and improvements were just approved for the North Pointe Park project. The Northwest Transportation study is also underway that will take a holistic look at the western transportation network. Extension remodels were also completed for the Library, old City Hall and new City Hall buildings. The Highway 141 sewer project that is also addressing a few bottle-neck areas is underway and signals were placed at the DC-G High School and Highway 44. The City Council has let the North Sports Complex project twice now after not receiving favorable bids the first time. The green space at Autumn Park has added improvements as well as the park at North Point. A new temporary Reverse Osmosis system was completed in February which greatly reduced the hardness in the water. An additional larger Reverse Osmosis System was financed this year and will be installed during the winter. In addition, improvements at the Wastewater Plant are underway. Planned for next year is the reconstruction of North James Street as well as NE Main Street. The Iowa DOT will be widening Highway 141 to six lanes and there is a major reconstruction of the Interstate 80/35 affecting Rider Corner that will be completed in 2018-2019. Because of this reconstruction, the intersection at SE 37th and Highway 141 will be enhanced in 2017-2018.

In 2010, the City Council extended a ten year non-annexation agreement with the City of Urbandale. This agreement was basically the extension of the previous agreement. However, the westerly line was extended one mile due west. In the next few years, the non-annexation agreements with the cities of Johnston, Granger, Dallas Center and Waukee will be renegotiated to determine future boundary lines. Johnston and Grimes have both agreed upon the border on the east of Grimes. All land along the east edge of Grimes is contiguous with Johnston or Urbandale, as well as land to the south of Grimes.

These indicators were taken into account when adopting the budget for fiscal year 2017. Amounts available for appropriation in the operating budget for governmental activities are \$10.621 million, decreasing from the final fiscal year 2016 actual operating receipts for governmental activities of \$11.751 million. The decrease is primarily explained by conservative revenue projections during the budget planning process. It should be noted, however, the City will be receiving \$724,312 in additional tax revenue resulting from the increase in total valuations. The City Council also certified \$379,953 more in TIF from what was received in 2016 to account for the difference in bond payments. Water receipts are budgeted higher than actual fiscal year 2016 receipts by \$180,975. Sewer is budgeted \$102,729 higher than the actual receipts in fiscal year 2016 and it's apparent this may be greatly underestimated as well. All of these numbers will be consistently monitored and amended if necessary. As always, when the budget is certified in March of each year, the actual numbers of the current budget aren't known so receipts are always estimated conservatively. Historically, actual receipts have exceeded budgeted receipts, with limited exceptions. The City will use these receipts to finance programs it currently offers, complete the capital improvement projects in process and initiate new capital improvement projects and plan for future projects. Budgeted disbursements, disregarding capital improvements and debt service, are expected to increase approximately \$2.011 million from actual fiscal year disbursements of \$6.757 million to \$8.768 million, or 29.8%. The large increase is accounted for by the addition of two additional people in the Fire and Rescue Department as well as additional equipment for the Fire Department. The Polk County Sheriff's contract results in a \$54,483 increase. An additional inspector will be added to the Building Department as well. Two additional Street Department employees as well as a public works director will be added to public works, resulting in an increase of \$282,115. The general park budget, accounting for just realistic mowing and ground maintenance costs, as well as a park development increase of \$200,000, will have a total increase of \$215,000. Administration is projecting a \$140,000 increase due to the hiring of a finance director as well as increases in economic development and city administrator salaries. Insurance premiums are also expected to increase \$140,000. If all of the estimates are realized, the City's budgeted General Fund cash balance is expected to increase from \$3.337 million to \$3.718 million. This is partially due to the reimbursement of the General Fund by RUT for the payment of the public works facility. As always, the City Council balances the ending balances needed to keep a higher bond rating with the potential tax impact to the citizens of Grimes.

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 Kelley Brown, City Administrator, 101 North Harvey, Grimes, Iowa 50111 or by e-mail at kelbrown@ci.grimes.ia.us.

City of Grimes

Basic Financial Statements

City of Grimes

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2016

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 2,969,314	1,112,851	24,038	-
Public works	1,734,554	-	1,200,841	-
Culture and recreation	1,117,152	175,284	42,665	-
Community and economic development	118,560	-	5,522	-
General government	817,689	56,074	47,570	-
Debt service	3,403,085	-	112,740	182,091
Capital projects	5,431,157	42,933	644	422,928
Total governmental activities	15,591,511	1,387,142	1,434,020	605,019
Business type activities:				
Water	2,266,826	2,430,025	-	-
Sewer	1,194,107	1,600,671	-	-
Solid waste	449,114	354,810	-	-
Storm water	214,499	460,927	-	-
Total business type activities	4,124,546	4,846,433	-	-
Total	\$ 19,716,057	6,233,575	1,434,020	605,019
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Commercial/industrial tax replacement				
General obligation bond proceeds, net of \$228,102 premium				
Loan proceeds				
Sale of capital assets				
Unrestricted interest on investments				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Debt service				
Streets				
Urban renewal purposes				
Capital projects				
Other purposes				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(1,832,425)	-	(1,832,425)
(533,713)	-	(533,713)
(899,203)	-	(899,203)
(113,038)	-	(113,038)
(714,045)	-	(714,045)
(3,108,254)	-	(3,108,254)
(4,964,652)	-	(4,964,652)
(12,165,330)	-	(12,165,330)
-	163,199	163,199
-	406,564	406,564
-	(94,304)	(94,304)
-	246,428	246,428
-	721,887	721,887
(12,165,330)	721,887	(11,443,443)
4,857,092	-	4,857,092
1,851,390	-	1,851,390
1,344,848	-	1,344,848
253,968	-	253,968
6,565,263	-	6,565,263
700,000	-	700,000
58,325	-	58,325
17,917	7	17,924
300,000	(300,000)	-
15,948,803	(299,993)	15,648,810
3,783,473	421,894	4,205,367
11,922,507	5,349,509	17,272,016
\$ 15,705,980	5,771,403	21,477,383
\$ 4,979,532	339,268	5,318,800
891,521	-	891,521
55,206	-	55,206
5,415,809	-	5,415,809
515,292	-	515,292
3,848,620	5,432,135	9,280,755
\$ 15,705,980	5,771,403	21,477,383

City of Grimes

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

As of and for the year ended June 30, 2016

	Special Revenue		
	General	Road Use Tax	Tax Increment Financing
Receipts:			
Property tax	\$ 4,062,462	-	-
Tax increment financing	-	-	1,344,848
Other city tax	215,936	-	-
Licenses and permits	575,011	-	-
Use of money and property	31,117	-	-
Intergovernmental	237,339	1,200,841	-
Charges for service	685,814	-	-
Special assessments	-	-	-
Miscellaneous	78,239	-	-
Total receipts	5,885,918	1,200,841	1,344,848
Disbursements:			
Operating:			
Public safety	2,950,822	-	-
Public works	1,231,458	503,096	-
Culture and recreation	1,110,857	-	-
Community and economic development	118,560	-	-
General government	817,689	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	6,229,386	503,096	-
Excess (deficiency) of receipts over (under) disbursements	(343,468)	697,745	1,344,848
Other financing sources (uses):			
Loan proceeds	700,000	-	-
General obligation bond proceeds, net of \$228,102 premium	-	-	-
Sale of capital assets	58,325	-	-
Transfers in	785,800	-	-
Transfers out	(100,000)	(290,377)	(1,351,603)
Total other financing sources (uses)	1,444,125	(290,377)	(1,351,603)
Change in cash balances	1,100,657	407,368	(6,755)
Cash balances beginning of year	2,747,963	484,153	61,961
Cash balances end of year	\$ 3,848,620	891,521	55,206
Cash Basis Fund Balances			
Restricted for:			
Debt service	\$ -	-	-
Streets	-	891,521	-
Urban renewal purposes	-	-	55,206
Capital projects	-	-	-
Other purposes	-	-	-
Unassigned	3,848,620	-	-
Total cash basis fund balances	\$ 3,848,620	891,521	55,206

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
1,851,390	-	578,694	6,492,546
-	-	-	1,344,848
-	-	-	215,936
-	-	-	575,011
112,740	42,933	5,522	192,312
71,771	422,928	19,661	1,952,540
-	644	-	686,458
182,091	-	-	182,091
-	-	31,415	109,654
2,217,992	466,505	635,292	11,751,396
-	-	18,492	2,969,314
-	-	-	1,734,554
-	-	6,295	1,117,152
-	-	-	118,560
-	-	-	817,689
3,403,085	-	-	3,403,085
-	5,431,157	-	5,431,157
3,403,085	5,431,157	24,787	15,591,511
(1,185,093)	(4,964,652)	610,505	(3,840,115)
-	-	-	700,000
2,151,214	4,414,049	-	6,565,263
-	-	-	58,325
1,212,177	629,803	-	2,627,780
-	-	(585,800)	(2,327,780)
3,363,391	5,043,852	(585,800)	7,623,588
2,178,298	79,200	24,705	3,783,473
2,801,234	5,336,609	490,587	11,922,507
4,979,532	5,415,809	515,292	15,705,980
4,979,532	-	-	4,979,532
-	-	-	891,521
-	-	-	55,206
-	5,415,809	-	5,415,809
-	-	515,292	515,292
-	-	-	3,848,620
4,979,532	5,415,809	515,292	15,705,980

City of Grimes

City of Grimes

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

As of and for the year ended June 30, 2016

	Enterprise			Total
	Water	Sewer	Nonmajor	
Operating receipts:				
Charges for service	\$ 2,430,025	1,600,671	815,737	4,846,433
Operating disbursements:				
Business type activities	1,743,597	841,181	663,613	3,248,391
Excess of operating receipts over operating disbursements	686,428	759,490	152,124	1,598,042
Non-operating receipts (disbursements):				
Interest on investments	7	-	-	7
Debt service	(523,229)	(352,926)	-	(876,155)
Net non-operating receipts (disbursements)	(523,222)	(352,926)	-	(876,148)
Excess of receipts over disbursements	163,206	406,564	152,124	721,894
Other financing sources (uses):				
Transfers in	-	-	100,000	100,000
Transfers out	(200,000)	(200,000)	-	(400,000)
Total other financing sources (uses)	(200,000)	(200,000)	100,000	(300,000)
Change in cash balances	(36,794)	206,564	252,124	421,894
Cash balances beginning of year	2,177,558	2,598,484	573,467	5,349,509
Cash balances end of year	\$ 2,140,764	2,805,048	825,591	5,771,403
Cash Basis Fund Balances				
Restricted for debt service	\$ 214,343	124,925	-	339,268
Unrestricted	1,926,421	2,680,123	825,591	5,432,135
Total cash basis fund balances	\$ 2,140,764	2,805,048	825,591	5,771,403

See notes to financial statements.

City of Grimes

City of Grimes

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The City of Grimes is a political subdivision of the State of Iowa located in Dallas and Polk County. It was first incorporated in 1894 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, sewer, solid waste and storm water utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Grimes 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 Grimes (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

Grimes Fire and Rescue Association is legally separate from the City but is so intertwined with the City it is, in substance, the same as the City. It is reported as part of the City and blended into the nonmajor governmental funds.

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: Polk County Assessor's Conference Board and the Polk County Joint E911 Service Board.

The City also participates in the following jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa: Des Moines Area Metropolitan Planning Organization and the Joint County/Municipal Disaster Services and Emergency Planning Administration.

B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position 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 Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the preceding category. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Tax Increment Financing 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 property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used 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.

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 is both restricted and unrestricted cash basis net position 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 are 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 Other Information.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2016 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 ensure 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.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$59,137 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City’s investment in the Iowa Public Agency Investment Trust is unrated.

At June 30, 2016, the City had investments in U.S. Government Treasury Notes with a carrying amount and fair value of \$2,151,214. Of this amount, \$23,447 matures in December 2016 and \$2,127,767 matures in June 2017.

The City uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The recurring fair value measurement for the U.S. Government Treasury Notes of \$2,151,214 was determined using the last reported sales price at current exchange rates. (Level 1 inputs)

The City had no other investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

(3) Bonds Payable and Other Financing Arrangements

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2017	\$ 2,075,000	927,446	684,000	64,698	2,759,000	992,144	3,751,144
2018	2,520,000	854,904	710,000	52,728	3,230,000	907,632	4,137,632
2019	2,370,000	772,212	739,000	40,302	3,109,000	812,514	3,921,514
2020	2,460,000	685,260	767,000	27,370	3,227,000	712,630	3,939,630
2021	2,540,000	594,739	797,000	13,946	3,337,000	608,685	3,945,685
2022-2026	8,225,000	1,749,595	-	-	8,225,000	1,749,595	9,974,595
2027-2031	5,390,000	834,882	-	-	5,390,000	834,882	6,224,882
2032-2035	2,505,000	195,200	-	-	2,505,000	195,200	2,700,200
Total	\$ 28,085,000	6,614,238	3,697,000	199,044	31,782,000	6,813,282	38,595,282

General Obligation Refunding Bonds

On May 25, 2016, the City issued \$5,545,000 of general obligation water improvement and refunding bonds of which \$2,045,000 was for the crossover advance refunding of general obligation corporate purpose bonds dated August 1, 2007.

The City entered into an escrow agreement whereby the proceeds from the general obligation refunding bonds were converted into U.S. government securities. These securities were placed in an escrow account for the express purpose of paying the interest on the general obligation refunding bonds as due until the cross over date of June 1, 2017, at which time the refunded general obligation corporate purpose bonds of \$2,105,000 become callable. After the principal and interest on all of the outstanding notes have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the City. The transactions and balances of the escrow account are recorded by the City since the refunded debt is not considered extinguished.

The refunding was undertaken to reduce future debt service payments by \$143,742 and resulted in an economic gain of \$134,562.

Water Revenue Bonds

On July 12, 2013, the City entered into a loan agreement with the Iowa Finance Authority (IFA) and the Iowa Department of Natural Resources for the issuance of water revenue bonds up to \$2,432,000 with interest at 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing a new Jordan water supply well. The City will draw down funds from the IFA upon request to reimburse the City for costs as they are incurred. At June 30, 2016, the City had drawn down \$2,142,019 of the authorized amount. An initiation fee of \$12,160 (0.5% of the authorized borrowing for the water revenue bonds) was charged by the IFA. The initiation fee was withheld from the first proceeds of the water revenue bonds drawn by the City during the year ended June 30, 2015. A final repayment schedule has not yet been adopted. During year ended June 30, 2016, the City paid principal of \$104,000 and interest of \$36,783 on the bonds under a preliminary repayment schedule.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$8,408,000 of water revenue bonds issued in December 2000 and July 2013. Proceeds from the bonds provided financing for the construction of water main extensions and a well. The bonds are payable solely from water customer net receipts and are payable through 2021. Annual principal and interest payments on the bonds are expected to require less than 77% of net receipts. The total principal and interest remaining to be paid on the bonds issued in December 2000 is \$2,007,339. For the current year, principal and interest paid and total customer net receipts were \$522,106 and \$686,428, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$5,372,000 of sewer revenue bonds issued in December 2000. Proceeds from the bonds provided financing for the construction of improvements to the sewer treatment plant. The bonds are payable solely from sewer customer net receipts and are payable through 2021. Annual principal and interest payments on the bonds are expected to require less than 47% of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,888,705. For the current year, principal and interest paid and total customer net receipts were \$351,873 and \$759,490, respectively.

On June 1, 2013, the Iowa Finance Authority reduced the interest rates on the December 19, 2000 water and sewer revenue bonds to 1.75% per annum. The agreements also require a .05% annual servicing fee. The resolutions providing for the issuance of the water and sewer revenue bonds issued under loan agreements between the City, the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. include the following provisions:

- (1) The bonds will only be redeemed from the future earnings of the enterprise activities and the bond holders hold a lien on the future earnings of the funds.
- (2) Sufficient monthly transfers shall be made to separate water and sewer revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.
- (3) User rates shall be established at a level which produce and maintain net receipts at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

Loan Agreement

On July 30, 2014, the City entered into a bank loan for \$400,000 to purchase a skid loader and 2 snow plows. The loan bears interest at 2.00% per annum and matures on July 30, 2018. The City began making annual principal payments of \$83,245, including interest on July 30, 2014. The principal balance at June 30, 2016 was \$239,935. The loan will be repaid from collections of a debt service levy on all taxable property in the City.

Lease Purchase Agreement

The City has entered into a lease-purchase agreement to lease a fire engine and equipment with a historical cost of \$700,000. The following is a schedule of the future minimum lease payments, including interest at a rate of 2.00% per annum, and the present value of net minimum least payments under the agreements in effect at June 30, 2016:

Year Ending June 30,	Fire engine & equipment
2017	145,680
2018	145,680
2019	145,680
2020	145,680
Total minimum lease payments	582,720
Less amount representing interest	(28,400)
Present value of net minimum lease payments	<u>\$ 554,320</u>

Payments under the lease-purchase agreement totaled \$145,680 for the year ended June 30, 2016.

(4) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member’s beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member’s accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS’ Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total of 16.40%.

The City’s contributions to IPERS for the year ended June 30, 2016 were \$189,854.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City reported a liability of \$938,480 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City’s proportion was 0.018996%, which was an increase of 0.002138% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City’s pension expense deferred outflows of resources and deferred inflows of resources totaled \$102,796, \$252,224 and \$336,336, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of inflation	
(effective June 30, 2014)	3.00% per annum.
Rates of salary increase	4.00 to 17.00% average, including inflation.
(effective June 30, 2010)	Rates vary by membership group.
Long-term investment rate of return	7.50% compounded annually, net of investment
(effective June 30, 1996)	expense, including inflation.
Wage growth	4.00% per annum, based on 3.00% inflation
(effective June 30, 1990)	and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 1,956,362	938,480	79,714

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 38 active and no retired members in the plan. Retired participants must be 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under 65 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 benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members range from \$200 to \$800 for single coverage and from \$600 to \$1,600 for family coverage. For the year ended June 30, 2016, the City contributed \$306,780 and \$13,397 of contributions were made by plan members eligible for benefits.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory time and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City’s approximate liability for earned vacation, compensatory time and sick leave payable to employees at June 30, 2016, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 107,000
Compensatory time	38,000
Sick leave	37,000
Total	<u>\$ 182,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2016.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road Use Tax	\$ 200,000
	Employee Benefits	585,800
		<u>785,800</u>
Debt Service	Special Revenue:	
	Road Use Tax	90,377
	Tax Increment Financing	1,121,800
		<u>1,212,177</u>
Capital Projects	Special Revenue:	
	Tax Increment Financing	229,803
	Enterprise:	
	Water	200,000
	Sewer	200,000
		<u>629,803</u>
Enterprise:		
Solid Waste	General	100,000
Total		<u>\$ 2,727,780</u>

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

(8) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 746 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

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

The City's property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The City's contributions to the Pool for the year ended June 30, 2016 were \$170,803.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member against whom the claim was made or loss was incurred.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

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

The City provides health coverage for its employees through a self-insurance plan funded and administrated by the City. The City assumes liability for the difference in deductibles from the plan for any amounts over \$250 for individual coverage and \$500 for family coverage. Monthly payments of claims are paid from the City's General Fund. During the year ended June 30, 2016, the City transferred \$9,388 from the Special Revenue, Employee Benefits Fund to the General Fund to fund the fees and claims paid by the City.

(9) Development and Rebate Agreements

The City has entered into 16 development and rebate agreements to assist in certain urban renewal projects. The City agreed to rebate incremental property tax paid by the developers in exchange for the costs of certain infrastructure improvement projects constructed by the City as set forth in the urban renewal plan and the individual development and rebate agreements. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developers will be rebated for periods ranging from five to ten years, beginning with the tax year in which the property tax on the completed value of the improvements is first paid. The maximum amount to be rebated under the development and rebate agreements is the lesser of actual project costs paid by the developer or \$9,407,210. The agreements do not include provisions for payment of interest.

During the year ended June 30, 2016, the City rebated \$240,524 of incremental property tax to developers. Resources were transferred from the Special Revenue, Tax Increment Financing Fund to the Debt Service Fund and the payment of this obligation was charged to the debt service function. The outstanding principal balance on these agreements at June 30, 2016 is \$7,606,443.

No bonds or notes were issued for these projects. To the extent there are insufficient tax increment receipts available on any payment date to make the required scheduled payment, the unpaid amount shall be carried over to the next payment date without accruing any interest.

An additional development agreement requires the City to reimburse the costs of a railway line abandonment/removal, as well as the relocation of a run-around switch. The maximum to be paid under this development agreement is \$350,000. The development agreement requires payments of \$50,000 per year until paid in full. During the year ended June 30, 2016, the City paid \$50,000 from the Special Revenue, Road Use Tax Fund. The outstanding principal balance on this agreement at June 30, 2016 is \$50,000.

(10) Education Facility and Community Provider Revenue Notes

The City entered into a loan agreement, dated July 1, 2004, with the Des Moines Christian School Association to obtain funds to loan to the Association. Pursuant to the loan agreement, the City issued an Education Facility Revenue Note, Series 2004, dated October 1, 2004, for \$7,200,000 under Chapter 419 of the Code of Iowa and secured the note by assignment of the loan agreement to First Federal Bank, West Des Moines, Iowa. The proceeds of the note are to be paid directly to or at the direction of the Des Moines Christian School Association for paying project costs or retiring existing debt.

The City entered into a loan agreement, dated November 1, 2004, with Special Olympics Iowa, Inc. to obtain funds to loan to the nonprofit corporation. Pursuant to the loan agreement, the City issued a Community Provider Revenue Note, Series 2004, dated November 11, 2004, for \$1,400,000 under Chapter 419 of the Code of Iowa and secured the note by an assignment of the loan agreement to Bankers Trust Company, NA, Des Moines, Iowa. The proceeds of the note are to be paid directly to or at the direction of Special Olympics Iowa, Inc. for payment of project costs.

The notes and the related interest are payable solely from payments derived pursuant to the loan agreements and from the properties which secure payment of the notes. The note principal and interest do not constitute liabilities of the City.

(11) Senior Housing Revenue Refunding Notes

The City entered into a loan agreement with PHS Walnut Ridge, LLC to obtain funds to loan to the nonprofit corporation. The City, on August 14, 2012, authorized the issuance of not to exceed \$3,500,000 of Senior Housing Revenue Refunding Notes, Series 2012, under the provisions of Chapter 419 of the Code of Iowa. The proceeds of the notes are to be paid directly to or at the direction of PHS Walnut Ridge, LLC for retiring existing debt. The notes and related interest are payable solely from revenue derived from a loan agreement and the note principal and interest do not constitute liabilities of the City.

(12) Construction Commitments

The City has entered into construction contracts totaling \$10,513,244. As of June 30, 2016, costs of \$3,369,029 had been paid on the contracts. The remaining \$7,144,215 will be paid as work on these projects progresses.

(13) Internal Loan

The City loaned \$855,000 to the Special Revenue, Tax Increment Financing Fund from the Capital Projects Fund for the Sports Complex Park. The remaining balance of the internal loan is \$175,197 as of June 30, 2016.

(14) Subsequent Event

On September 23, 2016, the City issued \$577,000 of taxable water revenue bonds to finance the construction of a drinking water treatment facility and \$2,685,000 of taxable sewer revenue bonds to finance the construction of a wastewater treatment facility.

(15) New Accounting Pronouncement

The City of Grimes adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

Other Information

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

Other Information

Year ended June 30, 2016

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required To Be Budgeted
Receipts:			
Property tax	\$ 6,492,546	-	-
Delinquent property tax	-	-	-
Tax increment financing	1,344,848	-	-
Other city tax	215,936	-	-
Licenses and permits	575,011	-	-
Use of money and property	192,312	7	-
Intergovernmental	1,952,540	-	-
Charges for service	686,458	4,846,433	-
Special assessments	182,091	-	-
Miscellaneous	109,654	-	24,013
Total receipts	11,751,396	4,846,440	24,013
Disbursements:			
Public safety	2,969,314	-	18,492
Public works	1,734,554	-	-
Health and social services	-	-	-
Culture and recreation	1,117,152	-	-
Community and economic development	118,560	-	-
General government	817,689	-	-
Debt service	3,403,085	-	-
Capital projects	5,431,157	-	-
Business type activities	-	4,124,546	-
Total disbursements	15,591,511	4,124,546	18,492
Excess (deficiency) of receipts over (under) disbursements	(3,840,115)	721,894	5,521
Other financing sources (uses), net	7,623,588	(300,000)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	3,783,473	421,894	5,521
Balances beginning of year	11,922,507	5,349,509	18,308
Balances end of year	\$ 15,705,980	5,771,403	23,829

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to
	Original	Final	Net Variance
6,492,546	6,400,540	6,404,140	88,406
-	1,000	1,000	(1,000)
1,344,848	1,351,603	1,351,603	(6,755)
215,936	332,730	344,733	(128,797)
575,011	422,028	538,525	36,486
192,319	66,800	90,600	101,719
1,952,540	1,119,379	1,499,201	453,339
5,532,891	5,818,900	5,728,650	(195,759)
182,091	100,000	100,000	82,091
85,641	54,000	73,400	12,241
<u>16,573,823</u>	<u>15,666,980</u>	<u>16,131,852</u>	<u>441,971</u>
2,950,822	3,075,591	3,002,271	51,449
1,734,554	1,926,500	2,114,000	379,446
-	13,000	30,000	30,000
1,117,152	1,367,562	1,244,766	127,614
118,560	159,110	162,570	44,010
817,689	770,127	894,609	76,920
3,403,085	3,459,292	3,459,292	56,207
5,431,157	7,125,000	8,125,000	2,693,843
4,124,546	3,821,714	4,383,292	258,746
<u>19,697,565</u>	<u>21,717,896</u>	<u>23,415,800</u>	<u>3,718,235</u>
(3,123,742)	(6,050,916)	(7,283,948)	4,160,206
7,323,588	2,700,000	4,558,000	2,765,588
4,199,846	(3,350,916)	(2,725,948)	6,925,794
17,253,708	6,939,710	6,939,710	10,313,998
<u>21,453,554</u>	<u>3,588,794</u>	<u>4,213,762</u>	<u>17,239,792</u>

City of Grimes

Notes to Other Information – Budgetary Reporting

June 30, 2016

The budgetary comparison is presented 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 blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon 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 \$1,697,904. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements did not exceed the amounts budgeted.

City of Grimes

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Two Years*
(In Thousands)

Other Information

	2016	2015
City's proportion of the net pension liability	0.018996%	0.016858%
City's proportionate share of the net pension liability	\$ 938	669
City's covered-employee payroll	\$ 1,896	1,674
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	49.47%	39.96%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

* In accordance with GASB No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Grimes

Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Last Ten Years
(In Thousands)

Other Information

	2016	2015	2014	2013
Statutorily required contribution	\$ 190	175	154	134
Contributions in relation to the statutorily required contribution	(190)	(175)	(154)	(134)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered-employee payroll	\$ 2,068	1,896	1,674	1,497
Contributions as a percentage of covered-employee payroll	9.19%	9.23%	9.20%	8.95%

See accompanying independent auditor's report.

2012	2011	2010	2009	2008	2007
114	96	88	72	55	43
(114)	(96)	(88)	(72)	(55)	(43)
-	-	-	-	-	-
1,356	1,289	1,250	1,091	869	734
8.41%	7.45%	7.04%	6.60%	6.33%	5.86%

City of Grimes

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

Supplementary Information

City of Grimes

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

As of and for the year ended June 30, 2016

	Employee Benefits	Economic Development Revolving Loan	Special Grimes Fire and Rescue Association
Receipts:			
Property tax	\$ 578,694	-	-
Use of money and property	-	5,522	-
Intergovernmental	11,884	-	-
Miscellaneous	-	-	24,013
Total receipts	590,578	5,522	24,013
Disbursements:			
Operating:			
Public safety	-	-	18,492
Culture and recreation	-	-	-
Total disbursements	-	-	18,492
Excess of receipts over disbursements	590,578	5,522	5,521
Other financing uses:			
Transfers out	(585,800)	-	-
Change in cash balances	4,778	5,522	5,521
Cash balances beginning of year	168,619	211,615	18,308
Cash balances end of year	\$ 173,397	217,137	23,829
Cash Basis Fund Balances			
Restricted for other purposes	\$ 173,397	217,137	23,829

See accompanying independent auditor's report.

Revenue			
FEMA Grant	Library	Rolow Memorial	Total
-	-	-	578,694
-	-	-	5,522
-	7,777	-	19,661
-	7,402	-	31,415
-	15,179	-	635,292
-	-	-	18,492
-	6,295	-	6,295
-	6,295	-	24,787
-	8,884	-	610,505
-	-	-	(585,800)
-	8,884	-	24,705
34,240	55,972	1,833	490,587
34,240	64,856	1,833	515,292
34,240	64,856	1,833	515,292

City of Grimes

City of Grimes

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

As of and for the year ended June 30, 2016

	Enterprise		
	Solid Waste	Storm Water	Total
Operating receipts:			
Charges for service	\$ 354,810	460,927	815,737
Operating disbursements:			
Business type activities	449,114	214,499	663,613
Excess (deficiency) of operating receipts over (under) operating disbursements	(94,304)	246,428	152,124
Transfers in	100,000	-	100,000
Change in cash balances	5,696	246,428	252,124
Cash balances beginning of year	6,568	566,899	573,467
Cash balances end of year	\$ 12,264	813,327	825,591
Cash Basis Fund Balances			
Unrestricted	\$ 12,264	813,327	825,591

See accompanying independent auditor's report.

City of Grimes
Schedule of Indebtedness
June 30, 2016

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Corporate purpose	Aug 1, 2007	4.00-4.10%	\$ 5,200,000
Corporate purpose	Nov 1, 2009	1.50-5.40	10,000,000
Corporate purpose	Sep 1, 2011	0.60-1.50	1,250,000
Corporate purpose	Dec 1, 2012	2.00-2.50	6,000,000
Corporate purpose	Apr 15, 2013	2.00	1,050,000
Corporate purpose	Jun 25, 2015	2.50-3.50	8,500,000
Corporate purpose	May 25, 2016	2.00-3.00	5,545,000
Total			
Revenue bonds:			
Water	Dec 19, 2000	1.75% *	\$ 5,976,000
Water	Jul 12, 2013	1.75 **	2,432,000
Sewer	Dec 19, 2000	1.75 *	5,372,000
Total			
Loan agreement:			
Snow Plows/Bobcat	Jul 30, 2014	2.00%	\$ 400,000
Lease-purchase agreement:			
Pierce Fire Truck	Dec 21, 2015	2.00%	\$ 700,000

* The Iowa Finance Authority reduced the interest rates on the water and sewer revenue bonds to 1.75% per annum as of June 1, 2013. The agreements also require a .05% annual servicing fee.

** The City is required to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
2,830,000	-	355,000	2,475,000	114,910
6,855,000	-	655,000	6,200,000	345,615
250,000	-	250,000	-	3,750
5,525,000	-	275,000	5,250,000	116,531
650,000	-	215,000	435,000	13,000
8,500,000	-	320,000	8,180,000	240,030
-	5,545,000	-	5,545,000	-
\$ 24,610,000	5,545,000	2,070,000	28,085,000	833,836
2,247,000	-	342,000	1,905,000	39,323
1,150,519	792,161	104,000	1,838,680	36,783
2,107,000	-	315,000	1,792,000	36,873
\$ 5,504,519	792,161	761,000	5,535,680	112,979
316,755	-	76,820	239,935	6,425
-	700,000	145,680	554,320	-

City of Grimes

Bond Maturities

June 30, 2016

General Obligation Bonds											
Year Ending June 30,	Corporate Purpose Issued Aug 1, 2007		Corporate Purpose Issued Nov 1, 2009		Corporate Purpose Issued Dec 1, 2012		Corporate Purpose Issued Apr 15, 2013		Corporate Purpose Issued June 25, 2015		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2017	4.00%	\$ 370,000	4.65%	\$ 680,000	2.00%	\$ 280,000	2.00%	\$ 215,000	3.00%	\$ 330,000	
2018	4.05	385,000	5.00	700,000	2.00	285,000	2.00	220,000	3.00	340,000	
2019	4.05	405,000	5.00	725,000	2.00	290,000	-	-	3.00	350,000	
2020	4.10	420,000	5.00	755,000	2.00	300,000	-	-	3.00	360,000	
2021	4.10	440,000	5.15	785,000	2.00	305,000	-	-	3.00	370,000	
2022	4.10	455,000	5.30	815,000	2.00	310,000	-	-	2.50	380,000	
2023	-	-	5.35	850,000	2.00	315,000	-	-	2.50	390,000	
2024	-	-	5.40	890,000	2.00	325,000	-	-	2.75	400,000	
2025	-	-	-	-	2.00	330,000	-	-	2.75	410,000	
2026	-	-	-	-	2.13	335,000	-	-	3.00	420,000	
2027	-	-	-	-	2.00	345,000	-	-	3.00	435,000	
2028	-	-	-	-	2.00	350,000	-	-	3.00	450,000	
2029	-	-	-	-	2.13	355,000	-	-	3.00	460,000	
2030	-	-	-	-	2.38	365,000	-	-	3.00	475,000	
2031	-	-	-	-	2.50	375,000	-	-	3.00	490,000	
2032	-	-	-	-	2.50	385,000	-	-	3.00	510,000	
2033	-	-	-	-	-	-	-	-	3.50	520,000	
2034	-	-	-	-	-	-	-	-	3.50	535,000	
2035	-	-	-	-	-	-	-	-	3.50	555,000	
Total		<u>\$ 2,475,000</u>		<u>\$ 6,200,000</u>		<u>\$ 5,250,000</u>		<u>\$ 435,000</u>		<u>\$ 8,180,000</u>	

See accompanying independent auditor's report.

Revenue Bonds								
Corporate Purpose			Water		Sewer			
Issued May 26, 2016			Issued Dec 19, 2000		Issued Dec 19, 2000			
Interest			Interest		Interest			
Rates	Amount	Total	Rates	Total	Rates	Amount	Total	Total
2.00%	\$ 200,000	2,075,000	1.75%	\$ 355,000	1.75%	\$ 329,000	684,000	
2.00	590,000	2,520,000	1.75	367,000	1.75	343,000	710,000	
2.00	600,000	2,370,000	1.75	381,000	1.75	358,000	739,000	
3.00	625,000	2,460,000	1.75	394,000	1.75	373,000	767,000	
3.00	640,000	2,540,000	1.75	408,000	1.75	389,000	797,000	
3.00	650,000	2,610,000		-		-	-	
2.00	230,000	1,785,000		-		-	-	
2.00	235,000	1,850,000		-		-	-	
2.00	240,000	980,000		-		-	-	
2.00	245,000	1,000,000		-		-	-	
2.00	250,000	1,030,000		-		-	-	
2.13	250,000	1,050,000		-		-	-	
2.25	260,000	1,075,000		-		-	-	
2.38	265,000	1,105,000		-		-	-	
2.50	265,000	1,130,000		-		-	-	
	-	895,000		-		-	-	
	-	520,000		-		-	-	
	-	535,000		-		-	-	
	-	555,000		-		-	-	
	<u>\$ 5,545,000</u>	<u>28,085,000</u>		<u>\$ 1,905,000</u>		<u>\$ 1,792,000</u>	<u>3,697,000</u>	

City of Grimes

Schedule of Receipts By Source and Disbursements By Function –
All Governmental Funds

For the Last Ten Years

	2016	2015	2014	2013
Receipts:				
Property tax	\$ 6,492,546	6,150,238	5,812,917	5,384,022
Tax increment financing	1,344,848	1,298,253	1,174,536	1,335,445
Other city tax	215,936	224,025	210,131	204,179
Licenses and permits	575,011	698,252	466,683	423,560
Use of money and property	192,312	71,657	72,145	67,607
Intergovernmental	1,952,540	1,828,242	1,131,826	1,283,467
Charges for service	686,458	595,965	615,911	437,434
Special assessments	182,091	161,553	153,437	199,663
Miscellaneous	109,654	102,384	93,372	99,578
Total	<u>\$ 11,751,396</u>	<u>11,130,569</u>	<u>9,730,958</u>	<u>9,434,955</u>
Disbursements:				
Operating:				
Public safety	\$ 2,969,314	3,077,667	2,280,626	1,771,301
Public works	1,734,554	3,875,949	1,893,484	1,401,187
Health and social services	-	-	-	-
Culture and recreation	1,117,152	1,512,321	1,175,528	869,581
Community and economic development	118,560	143,281	129,683	122,300
General government	817,689	1,044,050	687,525	655,158
Debt service	3,403,085	2,845,086	2,773,233	3,734,868
Capital projects	5,431,157	6,020,914	3,442,998	2,683,365
Total	<u>\$ 15,591,511</u>	<u>18,519,268</u>	<u>12,383,077</u>	<u>11,237,760</u>

See accompanying independent auditor's report.

2012	2011	2010	2009	2008	2007
5,145,434	5,033,717	4,461,334	3,805,022	3,239,293	2,853,663
1,161,927	1,060,037	812,070	881,205	966,128	761,226
243,855	226,812	215,732	197,810	198,987	112,067
345,021	261,512	349,221	184,396	427,871	425,331
77,028	146,295	91,697	282,917	311,866	154,674
2,193,161	4,219,426	1,594,655	560,122	582,316	1,073,834
355,207	291,711	247,272	269,886	252,863	240,383
190,504	273,936	189,244	60,230	37,859	49,060
90,807	512,549	1,067,568	1,715,428	1,678,958	1,756,010
9,802,944	12,025,995	9,028,793	7,957,016	7,696,141	7,426,248
1,792,889	1,342,355	1,267,021	1,126,024	1,066,345	824,398
2,264,122	1,461,193	1,421,463	1,660,313	1,045,823	767,595
5,809	-	-	-	-	6,067
893,848	937,497	738,238	778,958	575,730	480,494
122,548	114,011	112,859	160,916	141,481	58,799
534,360	521,971	609,524	577,086	497,589	486,222
3,666,018	2,150,932	1,631,804	1,585,293	1,834,602	1,371,799
5,094,990	6,624,078	7,150,402	4,089,799	4,379,280	5,092,309
14,374,584	13,152,037	12,931,311	9,978,389	9,540,850	9,087,683

**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**



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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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 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, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grimes, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 27, 2017. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Grimes' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Grimes' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Grimes' internal control.

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's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Grimes' 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, 2016 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 Grimes' Responses to the Findings

The City of Grimes' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Grimes' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Grimes 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.


MARY MOSIMAN, CPA
Auditor of State

January 27, 2017

City of Grimes

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Grimes

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2016 did not exceed the amounts budgeted.
- (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) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance 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) Water and Sewer Revenue Bonds – No instances of non-compliance with the provisions of the revenue bond resolutions were noted.
- (9) Annual Urban Renewal Report – No instances of non-compliance with the Annual Urban Renewal Report were noted.
- (10) Transfers – The City transferred funds from the General, Emergency Fund to the Enterprise, Solid Waste Fund to subsidize the Solid Waste Fund. Transfers may be made from the Emergency Fund to the General Fund per Chapter 384.8 of the Code of Iowa.

Recommendation – Transfers should be made from the Emergency Fund to the General Fund prior to being transferred to the Solid Waste Fund.

Response – The City will make the appropriate transfer to the Solid Waste Fund by first transferring from the Emergency Fund to the General Fund.

Conclusion – Response accepted.

City of Grimes

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

- (11) Veteran Discount – Chapter 388.6 of the Code of Iowa states, “A city utility or combined utility system may not provide use or service at a discriminatory rate, except to the City or its agencies, as provided in Chapter 384.91.” Veteran discounts were provided on garbage fees by the City Council.

Recommendation – The City is required to establish and apply consistent billing rates to certain types of customers, such as residential or commercial. The City Council should implement procedures which ensure nondiscriminatory garbage rates are used for all customers.

Response – Home Base Iowa encouraged all cities to find avenues for making the transition of Veterans back into our cities more affordable. The City will review the incentives to determine if they are all consistent with the Iowa Code.

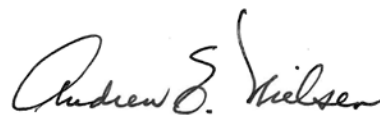
Conclusion – Response accepted.

City of Grimes

Staff

This audit was performed by:

Jennifer L. Wall, CPA, Manager
Kathy L. Rupp, CPA, Senior Auditor II
Nicole L. Roethlisberger, Staff Auditor
Libby C. Lamfers, 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