



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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NEWS RELEASE

FOR RELEASE January 31, 2006

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

The City's receipts totaled \$10,941,280 for the year ended June 30, 2005, an 81 percent increase from 2004. The receipts included \$2,357,721 in property tax, \$670,298 from tax increment financing, \$2,789,543 from charges for service, \$627,854 from operating grants, contributions and restricted interest, \$3,901,492 from capital grants, contributions and restricted interest, \$32,557 from unrestricted interest on investments, \$498,681 from note proceeds and \$63,134 from other general receipts.

Disbursements for the year totaled \$10,910,424, a 50 percent increase from the prior year, and included \$4,817,303 for capital projects, \$1,430,441 for public safety and \$1,092,771 for debt service. Also, disbursements for business type activities totaled \$1,845,369.

The significant increase in receipts is due primarily to a Revitalize Iowa's Sound Economy grant, reimbursements from developer agreements, increased property tax collections and loan proceeds used to purchase a ladder truck for the fire department. In addition, the City collected more building permit and building and development fees. The increase in disbursements is due to the purchase of a fire truck and city hall building and ongoing capital projects, including the S. 11th Street, Highway 141 and Highway 44 projects.

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

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CITY OF GRIMES

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

JUNE 30, 2005

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City of Grimes

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tom Armstrong	Mayor	Jan 2006
Michael Grove	Mayor Pro Tem	Jan 2006
Ron Long	Council Member	Jan 2006
Mike Martin	Council Member	Jan 2006
Tami Evans	Council Member	Jan 2008
Tom Shatava	Council Member	Jan 2008
Kelley Brown	Administrator	Indefinite
Susan Lemon	Clerk	Indefinite
Barbara Alexander	Treasurer	Indefinite
Tom Henderson	Attorney	Indefinite

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grimes, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Grimes' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

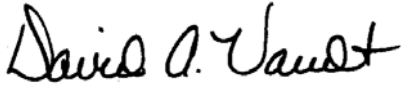
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

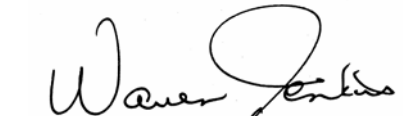
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grimes as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 29, 2005 on our consideration of the City of Grimes' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 15 and 34 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grimes' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 29, 2005

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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Receipts and transfers of the City's governmental activities increased 101.16%, or approximately \$4,871,000, from fiscal 2004 to fiscal 2005. Property tax increased approximately \$248,000. The City completed large transportation and utility infrastructure projects this year, resulting in approximately \$3,368,000 in reimbursements from developer agreements and RISE grants. These partnerships with developers and with the IDOT facilitated the completion of these improvements.

Residential and commercial construction also increased this year resulting in an increase of approximately \$238,000 in fees collected from plat reviews and inspections, as well as approximately \$64,000 in additional revenue from building permit fees.

In addition, road use tax receipts increased approximately \$32,000 due to the increase in population after the special census was completed. Special assessment proceeds from the extension of a sanitary sewer south to Capitol City Business Park also resulted in an increase in receipts of approximately \$437,000 in the Debt Service Fund.

In 2005, a fire truck was purchased with debt proceeds of approximately \$499,000.

- Disbursements increased 65%, or approximately \$3,573,000, from fiscal 2004 to fiscal 2005. Capital projects again accounted for most of the increase in spending, as referenced above. Capital spending increased approximately \$2,411,000 with the completion of the South 11th Street Rise Project, the extension of water and sewer to North Pointe located east of Highway 141 and 1.0 mile north of Highway 44, extension of sewer through Beaverbrooke Plats 3 and 4, extension of sewer south of Highway 44 to Kennybrook, signals and turn lanes at South 19th (62nd Ave) and new signals at Gateway Drive and Highway 44. Public safety increased approximately \$758,000, including \$499,000 as a result of the purchase of the fire truck and a \$214,000 increase in billable engineering hours paid by the City but reimbursed by the developers.
- The City's total cash basis net assets increased .74%, or approximately \$31,000, from June 30, 2004 to June 30, 2005. Although there was a lot of activity in the Capital Projects Fund and a decrease in this fund of approximately \$317,000, most of the spending was offset by bond proceeds from the previous year and developer or RISE reimbursements. The General Fund increased by approximately \$259,000. Although most of the increase in spending is accounted for by the increase in public safety and public works, this was offset by the increase in tax revenue, building fees and loan proceeds. The Road Use Tax Fund decreased approximately \$331,000 because the previous fund balance was incorporated into the transportation capital projects and was expended. The Debt Service Fund increased approximately \$282,000 because of the proceeds accumulating from special assessments not yet sufficient for prepayment on the bond at this time. The other nonmajor governmental fund balances increased approximately \$58,000, mostly due to the repayment from an economic development loan. The 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 Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

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

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

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water system, the sanitary sewer system and solid waste disposal. 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 three Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City and the solid waste fund.

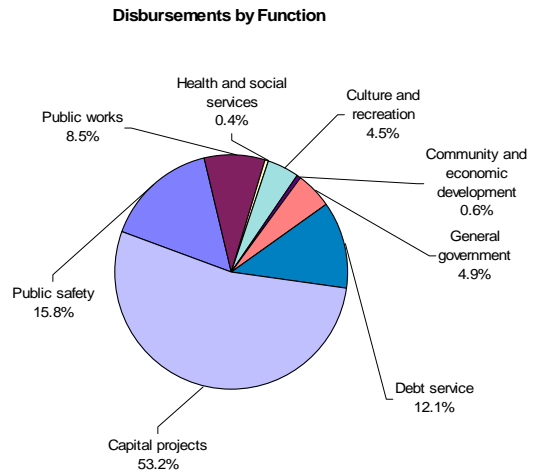
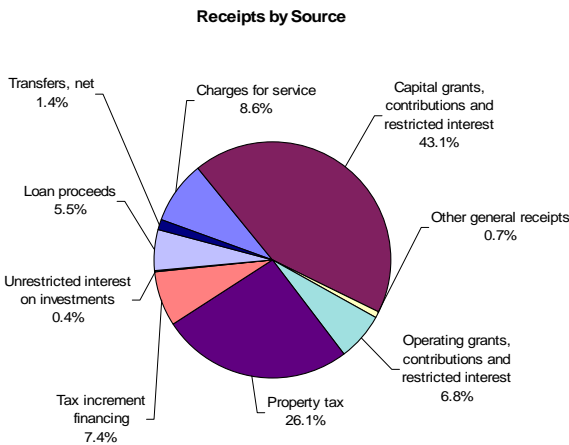
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago from \$3.332 million to \$3.317 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year ended June 30,	
	2005	2004
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 777,503	431,525
Operating grants, contributions and restricted interest	618,488	530,187
Capital grants, contributions and restricted interest	3,901,492	48,011
General receipts:		
Property tax	2,357,721	2,110,115
Tax increment financing	670,298	778,617
Unrestricted interest on investments	32,529	50,512
Loan proceeds	498,681	87,292
Other general receipts	63,134	12,574
Transfers, net	130,000	450,000
Total receipts and transfers	<u>9,049,846</u>	<u>4,498,833</u>
Disbursements:		
Public safety	1,430,441	671,961
Public works	771,074	680,222
Health and social services	39,000	48,000
Culture and recreation	411,536	354,637
Community and economic development	57,634	47,633
General government	445,296	383,215
Debt service	1,092,771	900,224
Capital projects	4,817,303	2,406,198
Total disbursements	<u>9,065,055</u>	<u>5,492,090</u>
Decrease in cash basis net assets	(15,209)	(993,257)
Cash basis net assets beginning of year	3,331,886	4,325,143
Cash basis net assets end of year	<u>\$ 3,316,677</u>	<u>3,331,886</u>



The City's total receipts and transfers for governmental activities increased by 101.16%. The total cost of all programs and services increased 65%, or approximately \$3,573,000, with no programs added or cut this year. A significant increase in receipts resulted from an increase in valuation from \$262,035,158 to \$300,384,272. Valuation increased 14.64%, or \$38,349,114. Property tax increased \$247,606. The City also completed large transportation and utility infrastructure projects this year, resulting in \$3,367,564 in reimbursements from developer agreements and RISE grants.

The City's property tax rates for 2005 remained the same as 2004 with a rate of \$12.83 per \$1,000 of taxable valuation. The rollback percentage decreased from 51.39% to 48.46%. The net result of the tax rate remaining constant and the decrease in the rollback resulted in an actual net decrease in property taxes to the property owner. The effect on a property valued at \$150,000 was a decrease in taxes of \$56.42. The residential rollback percentage is projected to further decrease to 47.96% and the tax rate is projected to remain constant for fiscal year 2006. However, the tax levy to property owners may still increase due to an overall increase in the valuation of their property or an increase in school, county or city tax rates.

The cost of all governmental activities this year was \$9.065 million compared to \$5.492 million last year. However, as shown in the Statement of Activities and Net Assets on pages 18-19, the amount taxpayers ultimately financed for these activities was only \$3.768 million because some of the cost was paid by those directly benefiting from the programs (\$777,503), by other governments and organizations that subsidized certain programs with operating grants, contributions and restricted interest \$618,488 or from capital grants, contributions and restricted interest (developer agreements, RISE, etc) of \$3,901,492. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2005 from approximately \$1,010,000 to approximately \$5,297,000, principally due to increased building permits, inspections fees, plat reviews, an expanded summer recreation program, special assessments, an increase in the City's road use tax allocation and, as noted above, the increase in capital projects resulting in increased receipts from developer agreements and a RISE grant. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$3,028,000 in tax (some of which could only be used for certain programs) and with other receipts, such as loan proceeds, interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 1,064,745	1,066,047
Sewer	798,947	777,821
Solid waste	148,348	142,399
Operating grants, contributions and restricted interest	9,366	13,582
General receipts:		
Unrestricted interest on investments	28	43
Total receipts	<u>2,021,434</u>	<u>1,999,892</u>
Disbursements and transfers:		
Water	965,971	926,237
Sewer	691,945	710,022
Sewer	187,453	166,441
Transfers	130,000	450,000
Total disbursements and transfers	<u>1,975,369</u>	<u>2,252,700</u>
Increase (decrease) in cash basis net assets	46,065	(252,808)
Cash basis net assets beginning of year	<u>825,539</u>	<u>1,078,347</u>
Cash basis net assets end of year	<u>\$ 871,604</u>	<u>825,539</u>

Total business type activities receipts for the fiscal year were \$2.021 million compared to \$2.0 million last year. This increase was due primarily to an increase in water, sewer and solid waste users as a result of the continuous growth in the City of Grimes. The cash balance increased by approximately \$46,000 from the prior year because a smaller amount of transfers were made this year to pay for ongoing capital costs. Total disbursements and net transfers for the fiscal year decreased by 12.3% to a total of \$1.975 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Grimes completed the year, its governmental funds reported a combined fund balance of \$3,316,677, a decrease of \$15,209 from last year's total of \$3,331,886. 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 \$258,978 from the prior year to \$1,144,750. This increase was due to the increase in total valuation resulting in an increase in property tax received. The City continues to monitor taxes and ending fund balances to determine the balance between having money in reserve for unforeseen emergencies versus keeping taxes at a consistent level.
- The Road Use Tax Fund cash balance decreased by \$330,521 to \$83,870 during the fiscal year. The beginning balance of \$414,391 had been held in anticipation of the Highway 44 Lane Expansion project and the Signal and Lane Expansion project at Highway 141 and 62nd/19th Street. \$515,000 was transferred from this fund for these capital projects. The City is committed to the continued use of road use tax receipts for major construction projects versus operations of the street department.
- The Tax Increment Financing Fund (TIF) 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 of Grimes designated the area east of Little Beaver to Highway 141 and south to Urbandale as an Urban Renewal Area. The City passed bonds and used TIF financing to pay for the sewer, water and road improvements and the signals at 54th and Highway 141. As a result of that investment, this area has been converted from fields into businesses. The increase in tax revenue obtained from the growth in this Urban Renewal Area is then 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 revenue. The resulting benefit to the citizens of Grimes and the DC-G School District is an increase in the valuation of the City, thus the increase of tax revenue needed to provide services. Traditionally, the City Council has only used TIF financing to promote commercial or industrial development. These are taxed at 98% to 100% of their valuation versus residential valuation which is taxed at 47.96% for fiscal year 2006. The City is currently certifying TIF debt for the payment of the utilities extended in the example above, transportation trail system planned improvements, signals at Highway 141 and NW 62nd/S 19th, the fire station addition, sports complex and the paving of James Street. The area east of Highway 141 and south of South 11th was amended into the Urban Renewal Area so TIF financing could be used for the signals at Highway 141 and NW 62nd/S 19th and for the S 11th project. The City is currently in 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 his investment from the taxes generated from the increment in valuation caused by the development of his property. The developer is given the incentive to repay his self-incurred debt from the timely development of his property.

At the end of the fiscal year, the cash balance was \$24,687, an increase of \$34,013 from the previous year. The City of Grimes only certifies enough TIF revenue to pay off the bond payment each year. If the resulting taxes generated from the increment are more than needed to make the bond payments each year, the City, County and School District get the benefit of that tax revenue.

- The Debt Service Fund cash balance increased by \$281,925 to \$576,183 during the fiscal year. This increase was due to the receipt of special assessment proceeds from the extension of a sanitary sewer to the Capitol City Industrial area south of 54th and east of Highway 141. The special assessment proceeds will be held until the bonds can be called.
- The Capital Projects Fund cash balance decreased by \$317,134 to \$1,072,148. Reimbursements from developer agreements and RISE funds financed the capital projects in 2004 and 2005, with some extending into 2006.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$91,832 to \$386,898, due primarily to the small increase in the sale of water that still allowed \$200,000 to be transferred to Capital Projects Fund and an increase in utility costs.
- The Sewer Fund cash balance increased by \$107,002 to \$482,688. No funds were transferred to the Capital Projects Fund but will be if revenues allow in 2006.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The first amendment was approved on March 8, 2005. This amendment provided for an increase in receipts for charges for service, special assessments and the increase in proceeds from the developer agreements and RISE funding for the capital improvement projects. Increased costs in public safety of \$394,560, public works of \$179,863 and \$5,510,000 in capital projects were also provided for in this amendment. In addition, \$284,890 was amended into public safety as a result of the increased fees for building permits, inspections, site plan and plat reviews resulting from the increase in growth and development. As noted many times in this report, the capital improvements accomplished this year have been phenomenal. What is even more noteworthy is that most of it was financed through outside funding, such as developers agreement reimbursements and RISE funding. The City traditionally amends the budget in May of the current 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. However, the timing of the capital projects necessitated an earlier amendment.

The second amendment was approved on May 24, 2005 due to the purchase of the fire truck. In addition, \$65,000 was amended into capital projects and \$14,000 was amended into the culture and recreation function.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$16.358 million in bonds and other long-term debt, compared to approximately \$16.963 million last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2005	2004
General obligation bonds	\$ 6,060	6,705
Revenue bonds	9,707	10,139
Loan agreement	499	-
Lease-purchase agreements	92	119
Total	\$ 16,358	16,963

Debt decreased as a result of payments made during this fiscal year. In addition, the City continues to certify TIF debt to lower the amount of debt service tax needed to pay the bond payments each year.

The City continues to carry a general obligation bond rating of A3 assigned by Moody's Investor Service to the City's debt in 2003. Prior to this time, the City had not been rated. This rating was based on the City's growing tax base, stable financial position and above average but manageable amount of rapidly retiring debt. The City's outstanding general obligation debt of \$6.651 million is significantly below its constitutional debt limit of \$15.019 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Grimes' elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates and fees charged for various City activities. One of the factors the Council will have to consider is a potential increase in garbage rates. In the past, tax revenue has been used to subsidize this Enterprise Fund.

The City's valuation continues to increase. For fiscal year 2006 the valuation has grown from \$300,384,272 to \$324,909,345. This is an increase of \$24,525,073 or 8.16%. Building permits have remained relatively steady with 48 single-family permits issued in 2003 and 79 permits issued in 2004, with the value of all permits totaling \$20,209,275. In 2005, 108 single-family permits have been issued to date with a total value of \$26,706,057 in new construction. The City conducted a special census in September 2004 and has an increase in population of 764 people. This is a growth rate of 15% since 2000. This increase will result in an increase of over \$400,000 in road use tax receipts which will be invested in the transportation system.

In addition, the economy is a factor. This is from the US Census Bureau from the 2000 Census.

Characteristics -	Number	Percent	U.S.
In labor force (population 16 years and over)	3,006	83.8	63.9%
Mean travel time to work in minutes (population 16 years and over)	20.0	(X)	25.5
Median household income (dollars)	56,275	(X)	41,994
Median family income (dollars)	60,847	(X)	50,046
Per capita income (dollars)	23,712	(X)	21,587
Families below poverty level	35	2.4	9.2%
Individuals below poverty level	166	3.3	12.4%

Housing Characteristics	Number	Percent	U.S.
Single-family owner-occupied homes	1,119	100.0	
Median value (dollars)	119,500	(X)	119,600
Median of selected monthly owner costs	(X)	(X)	
With a mortgage	1,123	(X)	1,088
Not mortgaged	348	(X)	295

(X) Not applicable.

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

The City of Grimes currently has various projects, site plan or plats under construction as follows: Glenstone Village, Glenstone Landing, Glenstone Reserve, Glenstone Trail, Grimes Crossing Townhomes, Grimes Crossing Condos, Glenstone Erosion Control, Beaverbrooke Townhomes, Beaverbrooke West Plat 3, Beaverbrooke West Plat 4, Beaverbrooke West Plat 5, Parkview North Plat 1, Taylor Estates Construction Plans Plat 9, North Pointe Plat 2, Meadowlark South PUD, Meadowlark Pointe Plat 8, Kennybrook Estates Plat 14, Crossroads Business Park (Miehe Drive Extension), Crossroads Business Park, Grimes Industrial Park, United Contractors Site Plan, Kum & Go, Glenstone Final Plat 1, Beaverbrooke West Final Plat 3, Grimes Business Park Final Plat 1, Kennybrook Estates Final Plat 14, Kennybrook Townhomes, North Pointe Plat 1, Meadowlark South PUD and Taylor Estates Plat 9.

The City of Grimes is also in the process of annexing 1,200 acres of land. All of these factors are indicative of strong economic growth.

These indicators were taken into account when adopting the budget for fiscal year 2006. Amounts available for appropriation in the operating budget are \$6.78 million, an increase of 4.6% over the final 2005 budget of \$6.48 million. Property tax (benefiting from the increases in assessed valuations), increases in road use tax and increases in development and inspection fees are expected to lead this increase. The City will use these receipts to finance programs it currently offers, complete the capital improvements projects that are in process, initiate new capital improvement projects and plan for future projects. Budgeted disbursements are expected to rise by approximately 2%. The City has added no major new programs or initiatives to the 2006 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$37,000 by the close of 2006.

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

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2005

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,430,441	708,759	3,138	-
Public works	771,074	-	456,167	-
Health and social services	39,000	-	39,000	-
Culture and recreation	411,536	25,860	33,642	1,176
Community and economic development	57,634	-	51,839	-
General government	445,296	10,784	34,659	-
Debt service	1,092,771	-	43	437,247
Capital projects	4,817,303	32,100	-	3,463,069
Total governmental activities	9,065,055	777,503	618,488	3,901,492
Business type activities:				
Water	965,971	1,064,745	9,366	-
Sewer	691,945	798,947	-	-
Solid waste	187,453	148,348	-	-
Total business type activities	1,845,369	2,012,040	9,366	-
Total	\$ 10,910,424	2,789,543	627,854	3,901,492

General Receipts:

Property and other city tax levied for:
 General purposes
 Tax increment financing
 Debt service
 Unrestricted interest on investments
 Loan proceeds
 Other general receipts
 Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Streets
 Debt service
 Capital projects
 Other purposes
 Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(718,544)	-	(718,544)
(314,907)	-	(314,907)
-	-	-
(350,858)	-	(350,858)
(5,795)	-	(5,795)
(399,853)	-	(399,853)
(655,481)	-	(655,481)
(1,322,134)	-	(1,322,134)
(3,767,572)	-	(3,767,572)
-	108,140	108,140
-	107,002	107,002
-	(39,105)	(39,105)
-	176,037	176,037
(3,767,572)	176,037	(3,591,535)
1,808,757	-	1,808,757
670,298	-	670,298
548,964	-	548,964
32,529	28	32,557
498,681	-	498,681
63,134	-	63,134
130,000	(130,000)	-
3,752,363	(129,972)	3,622,391
(15,209)	46,065	30,856
3,331,886	825,539	4,157,425
\$ 3,316,677	871,604	4,188,281
\$ 83,870	-	83,870
576,183	53,595	629,778
1,072,148	-	1,072,148
439,726	-	439,726
1,144,750	818,009	1,962,759
\$ 3,316,677	871,604	4,188,281

City of Grimes

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

As of and for the year ended June 30, 2005

	Special Revenue		
	General	Road Use Tax	Tax Increment Financing
Receipts:			
Property tax	\$ 1,536,823	-	-
Tax increment financing	-	-	670,298
Other city tax	107,372	-	-
Licenses and permits	295,902	-	-
Use of money and property	39,924	-	-
Intergovernmental	22,507	456,167	-
Charges for service	426,201	-	-
Special assessments	-	-	-
Miscellaneous	44,715	-	-
Total receipts	2,473,444	456,167	670,298
Disbursements:			
Operating:			
Public safety	1,430,441	-	-
Public works	515,523	255,551	-
Health and social services	-	-	-
Culture and recreation	408,464	-	-
Community and economic development	51,228	-	-
General government	445,296	-	-
Debt service	-	16,137	-
Capital projects	-	-	-
Total disbursements	2,850,952	271,688	-
Excess (deficiency) of receipts over (under) disbursements	(377,508)	184,479	670,298
Other financing sources (uses):			
Loan proceeds	498,681	-	-
Sale of capital assets	4,000	-	-
Operating transfers in	176,484	-	-
Operating transfers out	(42,679)	(515,000)	(636,285)
Total other financing sources (uses)	636,486	(515,000)	(636,285)
Net change in cash balances	258,978	(330,521)	34,013
Cash balances beginning of year	885,772	414,391	(9,326)
Cash balances end of year	\$ 1,144,750	83,870	24,687
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	1,144,750	-	-
Special revenue funds	-	83,870	24,687
Capital projects fund	-	-	-
Total cash basis fund balances	\$ 1,144,750	83,870	24,687

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
548,964	-	222,119	2,307,906
-	-	-	670,298
-	-	-	107,372
-	-	-	295,902
43	32,100	51,839	123,906
-	841,624	58,172	1,378,470
-	-	-	426,201
437,247	-	-	437,247
-	2,621,445	3,703	2,669,863
986,254	3,495,169	335,833	8,417,165
-	-	-	1,430,441
-	-	-	771,074
-	-	39,000	39,000
-	-	3,072	411,536
-	-	6,406	57,634
-	-	-	445,296
1,076,634	-	-	1,092,771
-	4,817,303	-	4,817,303
1,076,634	4,817,303	48,478	9,065,055
(90,380)	(1,322,134)	287,355	(647,890)
-	-	-	498,681
-	-	-	4,000
372,305	1,005,000	16,659	1,570,448
-	-	(246,484)	(1,440,448)
372,305	1,005,000	(229,825)	632,681
281,925	(317,134)	57,530	(15,209)
294,258	1,389,282	357,509	3,331,886
576,183	1,072,148	415,039	3,316,677
576,183	-	-	576,183
-	-	-	1,144,750
-	-	415,039	523,596
-	1,072,148	-	1,072,148
576,183	1,072,148	415,039	3,316,677

City of Grimes

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

As of and for the year ended June 30, 2005

	Enterprise Funds			Total
	Water	Sewer	Nonmajor - Solid Waste	
Operating receipts:				
Charges for service	\$1,064,745	798,947	148,348	2,012,040
Miscellaneous	9,366	-	-	9,366
Total operating receipts	1,074,111	798,947	148,348	2,021,406
Operating disbursements:				
Business type activities	540,933	284,202	187,453	1,012,588
Excess (deficiency) of operating receipts over (under) operating disbursements	533,178	514,745	(39,105)	1,008,818
Non-operating receipts (disbursements):				
Interest on investments	28	-	-	28
Debt service	(425,038)	(407,743)	-	(832,781)
Total non-operating receipts (disbursements)	(425,010)	(407,743)	-	(832,753)
Excess (deficiency) of receipts over (under) disbursements	108,168	107,002	(39,105)	176,065
Transfers:				
Operating transfers in	-	-	70,000	70,000
Operating transfers out	(200,000)	-	-	(200,000)
Total transfers	(200,000)	-	70,000	(130,000)
Net change in cash balances	(91,832)	107,002	30,895	46,065
Cash balances beginning of year	478,730	375,686	(28,877)	825,539
Cash balances end of year	\$ 386,898	482,688	2,018	871,604
Cash Basis Fund Balances				
Reserved for debt service	\$ 53,595	-	-	53,595
Unreserved	333,303	482,688	2,018	818,009
Total cash basis fund balances	\$ 386,898	482,688	2,018	871,604

See notes to financial statements.

City of Grimes

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Grimes is a political subdivision of the State of Iowa located in Polk County. It was first incorporated in 1904 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of 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. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: 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 Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

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

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

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

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

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

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

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

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

The City of Grimes 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 incurred, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amount budgeted in the business type activities function. Also, disbursements in the public safety and capital projects functions exceeded the amount budgeted prior to amendment of the budget.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$7,823 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

(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
	2006	\$ 650,000	215,400	448,000	380,044	1,098,000
2007	675,000	199,225	466,000	362,562	1,141,000	561,787
2008	700,000	180,630	484,000	344,371	1,184,000	525,001
2009	545,000	159,515	503,000	325,473	1,048,000	484,988
2010	470,000	140,918	522,000	305,824	992,000	446,742
2011 - 2015	2,085,000	458,260	2,934,000	1,206,403	5,019,000	1,664,663
2016 - 2020	935,000	65,775	3,557,000	585,332	4,492,000	651,107
2021	-	-	793,637	31,263	793,637	31,263
Total	\$ 6,060,000	1,419,723	9,707,637	3,541,272	15,767,637	4,960,995

Water and Sewer Revenue Bonds

The resolutions providing for the issuance of the water and sewer revenue bonds issued under a loan agreement between the City of Grimes, 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 revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

The City has not made monthly transfers to the revenue bond sinking accounts as required by the bond resolutions.

During the five years ended June 30, 2005, the City requested \$11,338,637 of the \$11,348,000 authorized. Wells Fargo Iowa, N.A., has the remaining \$9,363 held in trust which the City will request as the project is closed out.

Lease-Purchase Agreements

The City has entered into lease-purchase agreements to lease a fire truck and a truck and snow plow. The following is a schedule of the future minimum lease payments and the present value of net minimum lease payments under the agreements in effect at June 30, 2005:

Year Ending June 30,	Fire Truck	Truck and Snow Plow	Total
2006	\$ 18,020	16,137	34,157
2007	18,020	16,137	34,157
2008	18,020	-	18,020
2009	18,020	-	18,020
Total minimum lease payments	72,080	32,274	104,354
Less amount representing interest	(9,769)	(2,539)	(12,308)
Present value of net minimum lease payments	\$ 62,311	29,735	92,046

Payments under the agreements for the year ended June 30, 2005 totaled \$34,156.

Loan Agreement

On March 22, 2005, the City entered into a loan agreement with a local bank to borrow an amount not to exceed \$500,000 to purchase a fire truck. The amount actually borrowed totaled \$498,601. The loan bears interest at rates ranging from 3.05% to 4.58% per annum and matures on July 1, 2014. The City is scheduled to make annual principal payments of \$50,000 and interest beginning June 1, 2006. The loan will be repaid from future collections of a debt service levy on all taxable property in the City:

Year Ending June 30,	Interest Rate	Principal	Interest
2006	3.05%	\$ 50,000	23,001
2007	3.38	50,000	18,190
2008	3.57	50,000	16,500
2009	3.74	50,000	14,715
2010	3.92	50,000	12,845
2011-2015	4.09-4.58	248,681	33,265
Total		\$ 498,681	118,516

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$30,706, \$29,378 and \$26,849, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 59,000
Compensatory time	<u>8,000</u>
Total	<u>\$ 67,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2005.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Employee Benefits	\$ 176,484
Special Revenue: Fire Department FEMA Grant	General	16,659
Debt Service	General Special Revenue: Tax Increment Financing	26,020 346,285
Capital Projects	Special Revenue: Road Use Tax Tax Increment Financing Enterprise: Water	515,000 290,000 200,000
Enterprise: Solid Waste	Special Revenue: Emergency	70,000
Total		<u>\$ 1,640,448</u>

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

(7) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 509 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2005 were \$94,410.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the pool up to \$100,000 each accident, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

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

The City also carries commercial insurance purchased from 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.

(8) Development and Rebate Agreements

The City has entered into three development and rebate agreements to assist in certain urban renewal projects. The City agreed to rebate incremental taxes paid by the developers in exchange for the reimbursed 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 taxes 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 taxes on the completed value of the improvements are 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 \$730,000. The agreements do not include provisions for payment of interest.

During the year ended June 30, 2005, the City rebated \$182,500 of incremental taxes to a developer. The outstanding principal balance on these agreements at June 30, 2005 is \$547,500.

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 a portion of road use tax eligible project costs paid by the developer for certain infrastructure projects. The reimbursements will be funded from future road use tax receipts. The maximum to be paid under this development agreement is the lesser of actual road use eligible project costs paid by the developer or \$1,250,000. The rebates will span a five-year period, with payments anticipated to begin in fiscal year 2006. In the event road use tax receipts are insufficient to make the required annual reimbursement, payments will continue to the developer until the City has reimbursed the amount specified in the agreement.

These agreements are not a general obligation of the City. However, the debt payment in the succeeding year is subject to the constitutional debt limitation of the City.

(9) 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, National Association, 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.

(10) Construction Commitments

The City has entered into construction contracts totaling approximately \$4,894,000. As of June 30, 2005, costs of approximately \$3,500,000 had been paid on the contracts. The remaining \$1,394,000 will be paid as work on these projects progresses. The Highway 44 pavement widening project constitutes \$1,270,000 of the outstanding amount. All costs of this project have been paid initially by the Iowa Department of Transportation and the City will be charged for its portion of the costs when the project is completed.

(11) Subsequent Events

In August 2005, the City entered into a loan agreement to borrow an amount not to exceed \$120,000. The loan proceeds will be used to purchase an ambulance.

In September 2005, the City entered into a contract totaling \$1,760,000 for the Grimes Industrial Park Plat I Subdivision. The City plans to use RISE grant funding of approximately \$900,000 toward the cost of the project.

City of Grimes

Required Supplementary 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

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 2,307,906	-
Tax increment financing	670,298	-
Other city tax	107,372	-
Licenses and permits	295,902	-
Use of money and property	123,906	28
Intergovernmental	1,378,470	-
Charges for service	426,201	2,012,040
Special assessments	437,247	-
Miscellaneous	2,669,863	9,366
Total receipts	<u>8,417,165</u>	<u>2,021,434</u>
Disbursements:		
Public safety	1,430,441	-
Public works	771,074	-
Health and social services	39,000	-
Culture and recreation	411,536	-
Community and economic development	57,634	-
General government	445,296	-
Debt service	1,092,771	-
Capital projects	4,817,303	-
Business type activities	-	1,845,369
Total disbursements	<u>9,065,055</u>	<u>1,845,369</u>
Excess (deficiency) of receipts over (under) disbursements	(647,890)	176,065
Other financing sources (uses), net	632,681	(130,000)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(15,209)	46,065
Balances beginning of year	<u>3,331,886</u>	<u>825,539</u>
Balances end of year	<u>\$ 3,316,677</u>	<u>871,604</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
2,307,906	2,287,406	2,287,406	20,500
670,298	686,285	646,285	24,013
107,372	109,877	139,877	(32,505)
295,902	153,950	183,950	111,952
123,934	76,300	63,450	60,484
1,378,470	478,254	516,354	862,116
2,438,241	2,173,800	2,399,550	38,691
437,247	-	200,000	237,247
2,679,229	37,100	41,776	2,637,453
10,438,599	6,002,972	6,478,648	3,959,951
1,430,441	677,530	1,590,590	160,149
771,074	677,937	857,800	86,726
39,000	39,000	39,000	-
411,536	458,050	487,598	76,062
57,634	77,500	79,500	21,866
445,296	466,400	449,950	4,654
1,092,771	908,518	1,158,518	65,747
4,817,303	3,020,000	8,595,000	3,777,697
1,845,369	1,916,169	1,816,619	(28,750)
10,910,424	8,241,104	15,074,575	4,164,151
(471,825)	(2,238,132)	(8,595,927)	8,124,102
502,681	2,170,000	6,505,000	(6,002,319)
30,856	(68,132)	(2,090,927)	2,121,783
4,157,425	3,052,690	3,052,690	1,104,735
4,188,281	2,984,558	961,763	3,226,518

City of Grimes

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$6,833,471. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amount budgeted in the business type activities function. Also, disbursements in the public safety and capital projects functions exceeded the amount budgeted prior to amendment of the budget.

Other Supplementary Information

City of Grimes

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

As of and for the year ended June 30, 2005

	Employee Benefits	Emergency	Special Metro West Grant
Receipts:			
Property tax	\$ 173,917	48,202	-
Use of money and property	-	-	-
Intergovernmental	-	-	39,000
Miscellaneous	-	-	-
Total receipts	<u>173,917</u>	<u>48,202</u>	<u>39,000</u>
Disbursements:			
Operating:			
Health and social services	-	-	39,000
Culture and recreation	-	-	-
Community and economic development	-	-	-
Total disbursements	<u>-</u>	<u>-</u>	<u>39,000</u>
Excess of receipts over disbursements	<u>173,917</u>	<u>48,202</u>	<u>-</u>
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	(176,484)	(70,000)	-
Total other financing sources (uses)	<u>(176,484)</u>	<u>(70,000)</u>	<u>-</u>
Net change in cash balances	(2,567)	(21,798)	-
Cash balances beginning of year	23,098	117,172	-
Cash balances end of year	<u>\$ 20,531</u>	<u>95,374</u>	<u>-</u>
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	<u>\$ 20,531</u>	<u>95,374</u>	<u>-</u>

See accompanying independent auditor's report.

Revenue						
Economic Development Revolving Loans	Fire Department FEMA Grant	Park and Recreation	Library	Rolow Memorial		Total
-	-	-	-	-	-	222,119
51,839	-	-	-	-	-	51,839
-	-	-	19,172	-	-	58,172
-	-	-	2,527	1,176	-	3,703
51,839	-	-	21,699	1,176	-	335,833
-	-	-	-	-	-	39,000
-	-	-	3,072	-	-	3,072
6,406	-	-	-	-	-	6,406
6,406	-	-	3,072	-	-	48,478
45,433	-	-	18,627	1,176	-	287,355
-	16,659	-	-	-	-	16,659
-	-	-	-	-	-	(246,484)
-	16,659	-	-	-	-	(229,825)
45,433	16,659	-	18,627	1,176	-	57,530
191,839	(13,487)	13,145	25,428	314	-	357,509
237,272	3,172	13,145	44,055	1,490	-	415,039
237,272	3,172	13,145	44,055	1,490	-	415,039

City of Grimes
Schedule of Indebtedness
Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Corporate purpose	Jan 1, 2002	4.00-4.70%	\$ 3,200,000
Corporate purpose	Mar 1, 2003	2.00-4.00	2,650,000
Refunding	May 29, 2003	1.30-3.20	1,955,000
Total			
Revenue bonds:			
Water	Dec 19, 2000	3.53-3.84%	\$ 5,976,000
Sewer	Dec 19, 2000	4.30	5,372,000
Total			
Loan agreement:			
Fire truck	Mar 22, 2005	3.05-4.58%	\$ 498,681
Lease-purchase agreements:			
Fire truck	Dec 15, 2000	6.09%	\$ 111,500
Truck and snow plow	Oct 17, 2002	5.64	72,178
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
2,535,000	-	170,000	2,365,000	110,608
2,535,000	-	145,000	2,390,000	82,863
1,635,000	-	330,000	1,305,000	36,745
<u>\$ 6,705,000</u>	<u>-</u>	<u>645,000</u>	<u>6,060,000</u>	<u>230,216</u>
5,317,000	-	233,000	5,084,000	189,380
4,821,637	-	198,000	4,623,637	207,330
<u>\$10,138,637</u>	<u>-</u>	<u>431,000</u>	<u>9,707,637</u>	<u>396,710</u>
-	498,681	-	498,681	-
75,719	-	13,408	62,311	4,611
43,423	-	13,688	29,735	2,449
<u>\$ 119,142</u>	<u>-</u>	<u>27,096</u>	<u>92,046</u>	<u>7,060</u>

City of Grimes
Bond Maturities
June 30, 2005

Year Ending June 30,	General Obligation Bonds						Total
	Corporate Purpose Issued Jan 1, 2002		Corporate Purpose Issued Mar 1, 2003		Refunding Issued May 29, 2003		
	Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	
2006	4.00%	\$ 175,000	2.00%	\$ 150,000	1.90%	\$ 325,000	650,000
2007	4.00	185,000	2.25	150,000	2.30	340,000	675,000
2008	4.10	190,000	2.75	160,000	2.55	350,000	700,000
2009	4.25	195,000	3.00	160,000	2.90	190,000	545,000
2010	4.30	205,000	3.25	165,000	3.20	100,000	470,000
2011	4.40	210,000	3.30	175,000	-	-	385,000
2012	4.40	220,000	3.45	180,000	-	-	400,000
2013	4.50	230,000	3.50	185,000	-	-	415,000
2014	4.60	240,000	3.60	195,000	-	-	435,000
2015	4.70	250,000	3.70	200,000	-	-	450,000
2016	4.70	265,000	3.80	215,000	-	-	480,000
2017	-	-	3.90	225,000	-	-	225,000
2018	-	-	4.00	230,000	-	-	230,000
2019	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-
Total		<u>\$ 2,365,000</u>		<u>\$ 2,390,000</u>		<u>\$ 1,305,000</u>	<u>6,060,000</u>

See accompanying independent auditor's report.

Revenue Bonds										
Water			Water			Sewer				
Issued Dec 19, 2000			Issued Dec 19, 2000			Issued Dec 19, 2000				
Interest Rates		Amount	Interest Rates		Amount	Total	Interest Rates		Amount	Total
3.53%	\$	217,000	3.84%	\$	24,000	\$ 241,000	4.30%	\$	207,000	448,000
3.53		225,000	3.84		25,000	250,000	4.30		216,000	466,000
3.53		233,000	3.84		26,000	259,000	4.30		225,000	484,000
3.53		241,000	3.84		27,000	268,000	4.30		235,000	503,000
3.53		249,000	3.84		28,000	277,000	4.30		245,000	522,000
3.53		258,000	3.84		29,000	287,000	4.30		256,000	543,000
3.53		267,000	3.84		30,000	297,000	4.30		266,000	563,000
3.53		277,000	3.84		32,000	309,000	4.30		278,000	587,000
3.53		286,000	3.84		33,000	319,000	4.30		290,000	609,000
3.53		296,000	3.84		34,000	330,000	4.30		302,000	632,000
3.53		307,000	3.84		35,000	342,000	4.30		315,000	657,000
3.53		318,000	3.84		37,000	355,000	4.30		329,000	684,000
3.53		329,000	3.84		38,000	367,000	4.30		343,000	710,000
3.53		341,000	3.84		40,000	381,000	4.30		358,000	739,000
3.53		353,000	3.84		41,000	394,000	4.30		373,000	767,000
3.53		365,000	3.84		43,000	408,000	4.30		385,637	793,637
		<u>\$ 4,562,000</u>			<u>\$ 522,000</u>	<u>5,084,000</u>			<u>\$ 4,623,637</u>	<u>9,707,637</u>

Schedule 4

City of Grimes

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

For the Last Three Years

	2005	2004	2003
Receipts:			
Property tax	\$ 2,307,906	2,097,510	1,950,430
Tax increment financing	670,298	778,617	339,941
Other city tax	107,372	17,606	73,911
Licenses and permits	295,902	199,711	181,354
Use of money and property	123,906	87,329	51,408
Intergovernmental	1,378,470	566,563	572,297
Charges for service	426,201	182,481	118,126
Special assessments	437,247	-	-
Miscellaneous	2,669,863	31,724	278,697
	<hr/>		
Total	\$ 8,417,165	3,961,541	3,566,164
	<hr/>		
Disbursements:			
Operating:			
Public safety	\$ 1,430,441	671,961	566,187
Public works	771,074	680,222	873,301
Health and social services	39,000	48,000	42,250
Culture and recreation	411,536	354,637	388,090
Community and economic development	57,634	47,633	37,318
General government	445,296	383,215	338,916
Debt service	1,092,771	900,224	686,192
Capital projects	4,817,303	2,406,198	2,601,271
	<hr/>		
Total	\$ 9,065,055	5,492,090	5,533,525
	<hr/>		

See accompanying independent auditor's report.



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grimes, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 29, 2005. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Grimes' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Grimes' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

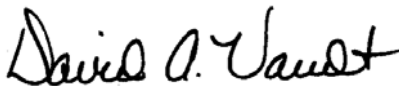
Compliance and Other Matters

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 that are described in the accompanying Schedule of Findings.

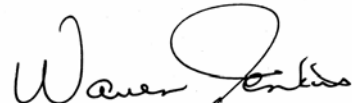
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Grimes and other parties to whom the City of Grimes may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 29, 2005

City of Grimes
Schedule of Findings
Year ended June 30, 2005

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

- (A) Timecards – City employees paid on an hourly basis complete bi-weekly timecards. However, certain timecards are not reviewed and approved by a supervisor.

Recommendation – The City should develop procedures to ensure timecards for all hourly employees are reviewed and approved by a supervisor.

Response – All timecards will be reviewed and approved by the appropriate supervisory personnel.

Conclusion – Response accepted.

City of Grimes
 Schedule of Findings
 Year ended June 30, 2005

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been approved by the Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- (2) Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amount budgeted in the business type activities function. Also, disbursements in the public safety and capital projects functions exceeded the amount budgeted prior to amendment of the budget.

Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – Disbursements will be closely monitored to ensure that they are not exceeded prior to an approved amendment, if needed.

Conclusion – Response accepted.

- (3) 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.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Tom Armstrong, Mayor, Owner of Rainbow Play Systems	Basketball hoops, per bid	\$3,597

In accordance with Chapter 362.5 of the Code of Iowa, the transaction does not appear to represent a conflict of interest since it was entered into through competitive bidding.

- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

City of Grimes

Schedule of Findings

Year ended June 30, 2005

Although minutes of Council proceedings were published, total disbursements for each fund and a summary of receipts were not published as required by Chapter 372.13(6) of the Code of Iowa.

In addition, the minutes record for two closed sessions did not identify the correct exemption under Chapter 21.5 of the Code of Iowa for the purpose stated for the closed session.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa by publishing the total disbursements by fund and a summary of receipts. For closed sessions, the City should correctly identify the exemption under Chapter 21.5 of the Code of Iowa which pertains to the closed session.

Response – Total disbursements and a summary of receipts will be included in the council meetings on a monthly basis. In addition, all closed sessions will reference the correct exemption under Chapter 21.5 of the Code of Iowa.

Conclusion – Response accepted.

- (8) 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.
- (9) Water and Sewer Revenue Bonds – The provisions for the water and sewer revenue bonds require sufficient monthly transfers be made to separate water and sewer revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.

The City did not make the required monthly transfers to the revenue bond sinking accounts. Transfers were made to the revenue bond sinking accounts April 30, 2005 for the total fiscal year debt service amounts.

Recommendation – The City should make sufficient monthly transfers to the revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.

Response – Sufficient monthly transfers will be made to the bond sinking funds for the purpose of making the bond principal and interest payments when due.

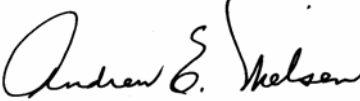
Conclusion – Response accepted.

City of Grimes

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager
Lesley R. Geary, CPA, Senior Auditor II
Ryan J. Johnson, Staff Auditor
Joseph M. Seuntjens, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State