



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ March 1, 2007

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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 \$9,361,466 for the year ended June 30, 2006, a 14 percent decrease from 2005. The receipts included \$2,515,573 in property tax, \$817,073 from tax increment financing, \$3,329,029 from charges for service, \$585,521 from operating grants, contributions and restricted interest, \$1,853,649 from capital grants, contributions and restricted interest, \$59,645 from unrestricted interest on investments, \$122,885 from bond and loan proceeds and \$78,091 from other general receipts.

Disbursements for the year totaled \$9,733,419, an 11 percent decrease from the prior year, and included \$3,362,209 for capital projects, \$1,413,924 for debt service and \$1,139,269 for public safety. Also, disbursements for business type activities totaled \$1,930,561.

The decrease in receipts and disbursements is due primarily to the substantial completion of large transportation and utility infrastructure projects in the prior fiscal year. Reimbursements from developer agreements and RISE grants for the projects are also less than the prior fiscal 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 <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, 2006

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City of Grimes

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
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
(After January 2006)		
Tom Armstrong	Mayor	Jan 2010
Michael Grove	Mayor Pro Tem	Jan 2010
Tami Evans	Council Member	Jan 2008
Tom Shatava	Council Member	Jan 2008
Jill Altringer	Council Member	Jan 2010
Ron Long	Council Member	Jan 2010
Kelley Brown	Administrator	Indefinite
Lucas Casey	Clerk	Indefinite
Barbara Alexander	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:

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, 2006, 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.

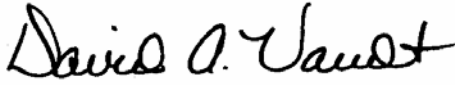
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

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, 2006, 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 September 25, 2006 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 have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of 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 three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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

September 25, 2006

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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Receipts and transfers of the City's governmental activities decreased 22.47%, or approximately \$2,033,000, from fiscal 2005 to fiscal 2006. The City completed large transportation and utility infrastructure projects this year, resulting in approximately \$1,577,000 in reimbursements from developer agreements and RISE grants, which is less than last year. This decrease can be explained in the timing and the magnitude of these projects. They had been started in early fiscal 2005 so the majority of the projects were completed in that fiscal year. There was also a large (\$2.9 million) RISE project in 2005, whereas two smaller RISE projects were initiated and neared completion in the fiscal 2006 budget year. Once again, however, it should be noted these partnerships with developers and with the IDOT greatly facilitated the completion of these improvements.

Property tax increased approximately \$158,000, which is the result of the valuation increase from \$281,363,942 to \$301,386,015.

Residential and commercial construction also increased this year, resulting in an increase of approximately \$63,000 in additional revenue from building permit fees, an increase of approximately \$137,000 in water tapping fees and an increase of approximately \$144,000 in sewer tapping fees. The increase in water and sewer tapping fees was largely due to an ordinance change intended to accommodate the line replacement costs for the entire city versus having different charges for each development.

In addition, road use tax receipts increased approximately \$35,000 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 receipts of approximately \$137,000 in the Debt Service Fund.

In 2006, an ambulance was purchased with debt proceeds of approximately \$120,000. As well, two pick-ups were purchased for the street department.

The Grimes Community Complex (the old Dallas Center-Grimes Middle School) was also opened this summer for use by the Summer Recreation Program. Hours for general use by the public were also made available. Additional programming is being planned for this building, including a master plan being developed for its future use.

- Disbursements for the City's governmental activities decreased 13.92%, or approximately \$1,262,000, from fiscal 2005 to fiscal 2006. The decrease in spending is explained on the same basis as the decrease in revenues for RISE and developer proceeds. Most of the capital projects were initiated in early fiscal 2005. The net difference in disbursements, after eliminating the effects of capital projects and debt service, is a decrease of \$128,256 from \$3,154,981 in 2005 to \$3,026,725 in 2006. Spending for public safety, although showing a decrease of \$291,172, actually increased after excluding the \$503,107 purchase of the fire truck from the 2005 budget. Then, the actual difference was a net increase of \$211,935. This increase can be explained by increases in fire department wages, our contract with Polk County and increases in engineering expenses. Public works spending decreased \$86,813 because less road use tax funds were expended. Culture and recreation spending increased \$130,827 to account for the increase in personnel at the library,

the purchase of more park equipment and expansion of recreational programs. Notable capital projects include the 2006 Trail Project where over 3 miles of asphalt and concrete trails were installed, including 4 pedestrian bridges and a large culvert under James Street. Other capital projects included general road improvements and finalizing of 2005 road projects, the completion of the South 11th RISE Project, the Destination Drive RISE project, the Grimes Industrial RISE project, the Heartland Pumping Station, the initiation of the South Little Beaver projects, extension of water main to complete the looping of the southern system, extension of sanitary sewer to the Grimes Industrial Park, the South 54th roadway assessment project and the South 19th roadway assessment project.

The failing of the Johnston bond issue for the outdoor aquatic center also put an end to the proposed cooperation between Grimes and Johnston for a regional outdoor aquatic center. However, since that time Knapp Properties has announced a new full-service YMCA will be located in Grimes.

- The City's total cash basis net assets decreased 8.88%, or approximately \$372,000, from June 30, 2005 to June 30, 2006. Although there was a lot of activity in the Capital Projects Fund, resulting in a decrease in the fund balance of approximately \$1,108,000, a portion of the spending was offset by developer or RISE reimbursements. The General Fund increased by approximately \$47,000. Although most of the increase in spending is accounted for by the increase in public works and culture and recreation, this was offset by the increase in tax revenue, building fees and loan proceeds. The Road Use Tax Fund increased approximately \$207,000, which will be incorporated into fiscal 2007 transportation capital projects and will be expended. The Debt Service Fund increased approximately \$30,000 because proceeds are accumulating from special assessments which are not yet sufficient for prepayment on the bond at this time. The other nonmajor governmental fund balances increased approximately \$25,000, mostly due to an increase in employee benefits property tax receipts, library county taxes and conservative spending. 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, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

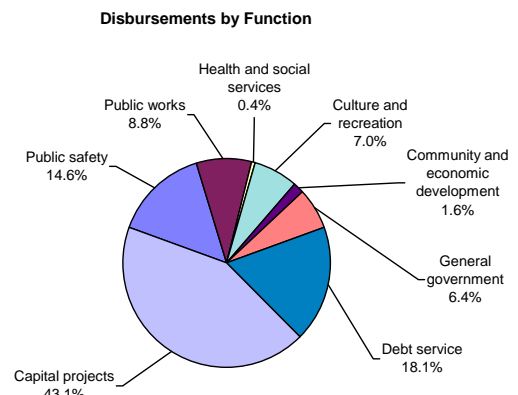
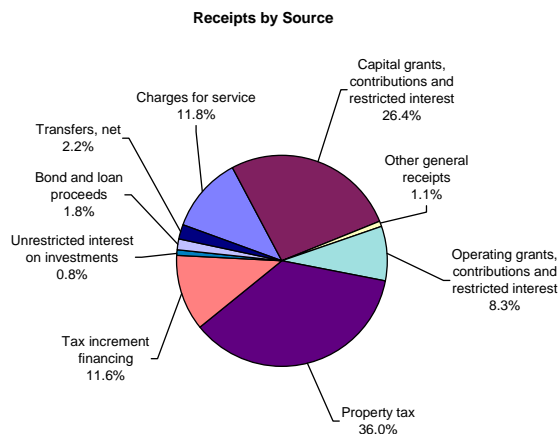
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City, and the solid waste fund.

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 \$3.317 million to \$2.530 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 829,312	777,503
Operating grants, contributions and restricted interest	585,521	618,488
Capital grants, contributions and restricted interest	1,853,649	3,901,492
General receipts:		
Property tax	2,515,573	2,357,721
Tax increment financing	817,073	670,298
Unrestricted interest on investments	59,614	32,529
Bond and loan proceeds	122,885	498,681
Other general receipts	78,091	63,134
Transfers, net	155,000	130,000
Total receipts and transfers	<u>7,016,718</u>	<u>9,049,846</u>
Disbursements:		
Public safety	1,139,269	1,430,441
Public works	684,261	771,074
Health and social services	33,583	39,000
Culture and recreation	542,363	411,536
Community and economic development	128,219	57,634
General government	499,030	445,296
Debt service	1,413,924	1,092,771
Capital projects	3,362,209	4,817,303
Total disbursements	<u>7,802,858</u>	<u>9,065,055</u>
Decrease in cash basis net assets	(786,140)	(15,209)
Cash basis net assets beginning of year	3,316,677	3,331,886
Cash basis net assets end of year	<u>\$ 2,530,537</u>	<u>3,316,677</u>



The City's total receipts and transfers for governmental activities decreased by 22.47%. The total cost of all programs and services decreased 13.92%, or \$1,262,197, even with the opening of the Grimes Community Complex. No additional programs were added or cut this year. A significant increase in tax revenue resulted from an increase in valuation from \$281,363,942 to \$301,386,015. Valuation increased 7.11%, or \$20,022,073. Property tax revenues increased \$157,852. The City also completed large transportation and utility infrastructure projects this year, resulting in \$1,577,344 in reimbursements from developer agreements and RISE grants.

The City's property tax rates for 2006 remained the same as 2005, with a rate of \$12.83 per \$1,000 of taxable valuation. The rollback percentage decreased from 48.46% to 47.964%. The net result of the tax rate remaining constant and the decrease in the rollback again 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 \$9.62. The residential rollback percentage is projected to further decrease to 45.996% and the tax rate has decreased to \$12.746 per \$1,000 of taxable valuation for fiscal year 2007. 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 \$7.802 million compared to \$9.065 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 \$4.534 million because some of the cost was paid by those directly benefiting from the programs (\$829,312), by other governments and organizations that subsidized certain programs with operating grants, contributions and restricted interest of \$585,521 or from capital grants, contributions and restricted interest (developer agreements, RISE, etc) of \$1,853,649. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2006 from approximately \$5,297,000 to approximately \$3,268,000, principally due to the decrease in receipts from developer agreements and the RISE grants resulting from a decrease in capital projects. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$3,333,000 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,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 1,392,658	1,064,745
Sewer	952,646	798,947
Solid waste	154,413	148,348
Operating grants, contributions and restricted interest	-	9,366
General receipts:		
Unrestricted interest on investments	31	28
Total receipts	<u>2,499,748</u>	<u>2,021,434</u>
Disbursements and transfers:		
Water	1,039,637	965,971
Sewer	682,917	691,945
Solid waste	208,007	187,453
Transfers	155,000	130,000
Total disbursements and transfers	<u>2,085,561</u>	<u>1,975,369</u>
Increase (decrease) in cash basis net assets	414,187	46,065
Cash basis net assets beginning of year	<u>871,604</u>	<u>825,539</u>
Cash basis net assets end of year	<u>\$ 1,285,791</u>	<u>871,604</u>

Total business type activities receipts for the fiscal year were \$2.5 million compared to \$2.021 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 and an increase in the water and sewer tapping fees. The increase in water and sewer tapping fees was largely due to an ordinance change intended to accommodate the line replacement costs for the entire city versus having different charges for each development.

The cash balance increased by approximately \$414,000 from the prior year because of the increase of \$136,705 in water tapping fees, \$144,208 in sewer tapping fees and strong fiscal management in this area to increase balances to pay for capital projects, thus decreasing debt service. Total disbursements and net transfers for the fiscal year increased from \$1.975 million to \$2.086 million in 2006. This was an increase of \$110,192, or 5.58%.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Grimes completed the year, its governmental funds reported a combined fund balance of \$2,530,537, a decrease of \$786,140 from last year's total of \$3,316,677. 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 \$47,243 from the prior year to \$1,191,993. 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 increased by \$206,767 to \$290,637 during the fiscal year. The ending balance of \$290,637 is being held in anticipation of payment to the Iowa Department of Transportation of approximately \$436,000 for a capital project. 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, 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 Dallas Center-Grimes 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 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 South 11th 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 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 \$37,578, an increase of \$12,891 from the previous year. The City only certifies enough TIF revenue 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, County and School District receive the benefit of that tax revenue.

- The Debt Service Fund cash balance increased by \$30,420 to \$606,603 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 \$1,108,171 to a negative \$36,023 due to the timing of project payments near the close of the 2006 fiscal year and the timing of the receipt of reimbursements from developers. Reimbursements from developer agreements and RISE funds financed the capital projects in 2005 and 2006, with some extending into 2007.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$153,052 to \$539,950, due primarily to the increase in water tapping fees of \$136,705. In addition, an increase in water sales of \$325,263 still allowed \$200,000 to be transferred to the Capital Projects Fund. Higher utility costs and chemical costs account for the increase in disbursements. Note – water and sewer tapping fees are used exclusively to finance maintenance and replacement of existing lines.
- The Sewer Fund cash balance increased by \$269,729 to \$752,417. No funds were transferred to the Capital Projects Fund but will be if revenues allow in 2007. Again, \$144,208 of this increase is accounted for in sewer tapping fee increase. \$153,699 was due to an increase in revenue generated from the increase in usage.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on April 25, 2006. This amendment provided for an increase in receipts for charges for service of \$444,000, special assessments of \$130,158, increases in licenses and permits of \$321,275 and a decrease in anticipated bond revenue for planned 2006-2007 construction projects of \$3,005,670. Increased costs in public safety of \$256,379, public works of \$171,800 and a decrease of \$2,990,000 in capital projects were also provided for in this amendment. The increased costs of \$256,379 in public safety was 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 completed this year have been phenomenal. What is even more noteworthy is most of it was financed through outside funding, such as developer 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.

Total receipts were \$1,514,502 more than the amended budget. The City did not budget for miscellaneous contributions received from developers for specific capital projects. Total disbursements were \$1,857,961 less than the amended budget. Disbursements in the capital projects function were \$1,447,791 less than the amended budget due to the timing and magnitude of the projects which progressed slower than anticipated.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$15.285 million in bonds and other long-term debt outstanding, compared to approximately \$16.358 million last year, as shown below.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2006	2005
General obligation bonds	\$ 5,410	6,060
Revenue bonds	9,263	9,707
Loan agreement	549	499
Lease-purchase agreements	63	92
Total	\$ 15,285	16,358

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 amount of TIF debt certified for development and rebate agreements subject to annual appropriation at June 30, 2006 was approximately \$718,000.

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 and TIF debt of \$6.740 million is significantly below its constitutional debt limit of \$16.245 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 2007 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 significantly increase. Valuation, excluding TIF designated areas, rose from \$301,386,015 in 2006 to \$357,192,229 for the 2007 fiscal year budget. This was an increase of 18.52%, or \$55,806,214. Property tax revenues are projected to increase by \$194,896. Building permits have remained relatively steady with 79 permits issued in 2004 with a total value of \$20,209,275. In 2005, there were 131 single-family permits issued with a total value of \$21,646,778 and in 2006, there were 102 single family permits issued to date with a total value of \$23,445,036 for new construction. In addition, in 2006 there were 103 town home permits issued with a valuation totaling \$16,137,840, 19 condos totaling \$6,602,124 and 2 multi-family totaling \$1,211,796 for a grand total of \$47,396,796. The City conducted a special census in September 2004, which resulted in 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 continuing projects under construction, as follows: Northern Trail Connection, Grimes Industrial Park RISE Project, Grimes Industrial Park Sanitary Sewer Extension, South James Street Water Main Extension, Crossroads RISE Project, 54th Avenue Improvements, S 19th Street Extension, Little Beaver Assessment, Grimes Mapping, Phase II Stormwater Permit, Grimes Storm Sewer Mapping, Heartland Pumping Station, Grimes Annexation, Xenia Water Agreement and Highway 44 Improvements. The City also has various projects, site plans or plats under construction, as follows: Glenstone Village Preliminary Plat and Site Plan, Glenstone Trail Plat 3, Chevalia Valley Condos, Autumn Park Rezone, Brookside Commons Site Plan, Parkview North Plat 3, Grimes Industrial Park, EBH Property, Kennybrooke Estates Plat 16, Fisher Group Townhomes-Meadowlark South, Beaverbrooke Plats 3, 4, 5 and 6, Taylor Estates plat 9, Crossroads Business Park Plat 1, Meadowlark South PUD, North Pointe Plat 2, Lowery Townhomes and Glenstone Reserve Landing and Townhomes.

The City of Grimes is also still in the process of annexing 1,200 acres of land in Dallas County and has completed the annexation of 176.586 acres last March. In addition, 170 acres will be annexed on the east side of Highway 141 north of 70th yet this fall. All of these factors are indicative of strong economic growth.

These indicators were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are \$7.80 million, an increase of 1.3% over the final 2006 budget of \$7.70 million. Property tax (benefiting from the increases in assessed valuations) and increases in development and inspection fees provide this increase. Historically, actual revenue exceeds budgeted revenue. The City will use these receipts to finance programs it currently offers, complete the capital improvement projects that are in process, initiate new capital improvement projects and plan for future projects. Budgeted disbursements, disregarding capital improvements and debt service, are expected to rise by approximately 4%. The City has added the opening of the Grimes Community Complex to the 2007 budget.

If these estimates are realized, the City's budgeted cash balance is expected to significantly increase. However, the proposed ending balances in proprietary accounts will be used to finance the Water and Sewer construction projects this fall. An amendment to the budget to reflect these changes will be completed in early January.

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, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,139,269	766,606	150	-
Public works	684,261	-	490,799	-
Health and social services	33,583	-	30,550	-
Culture and recreation	542,363	24,600	44,388	343
Community and economic development	128,219	-	4,086	-
General government	499,030	3,600	15,446	-
Debt service	1,413,924	-	102	137,137
Capital projects	3,362,209	34,506	-	1,716,169
Total governmental activities	7,802,858	829,312	585,521	1,853,649
Business type activities:				
Water	1,039,637	1,392,658	-	-
Sewer	682,917	952,646	-	-
Solid waste	208,007	154,413	-	-
Total business type activities	1,930,561	2,499,717	-	-
Total	\$ 9,733,419	3,329,029	585,521	1,853,649
General Receipts:				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Unrestricted interest on investments				
Bond and 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				
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
(372,513)	-	(372,513)
(193,462)	-	(193,462)
(3,033)	-	(3,033)
(473,032)	-	(473,032)
(124,133)	-	(124,133)
(479,984)	-	(479,984)
(1,276,685)	-	(1,276,685)
(1,611,534)	-	(1,611,534)
(4,534,376)	-	(4,534,376)
-	353,021	353,021
-	269,729	269,729
-	(53,594)	(53,594)
-	569,156	569,156
(4,534,376)	569,156	(3,965,220)
1,986,787	-	1,986,787
817,073	-	817,073
528,786	-	528,786
59,614	31	59,645
122,885	-	122,885
78,091	-	78,091
155,000	(155,000)	-
3,748,236	(154,969)	3,593,267
(786,140)	414,187	(371,953)
3,316,677	871,604	4,188,281
\$ 2,530,537	1,285,791	3,816,328
\$ 290,637	-	290,637
606,603	69,046	675,649
477,327	-	477,327
1,155,970	1,216,745	2,372,715
\$ 2,530,537	1,285,791	3,816,328

City of Grimes

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

As of and for the year ended June 30, 2006

	Special Revenue		
	General	Road Use Tax	Tax Increment Financing
Receipts:			
Property tax	\$ 1,633,657	-	-
Tax increment financing	-	-	817,073
Other city tax	68,100	-	-
Licenses and permits	355,345	-	-
Use of money and property	63,214	-	-
Intergovernmental	34,603	490,799	-
Charges for service	414,290	-	-
Special assessments	-	-	-
Miscellaneous	32,098	-	-
Total receipts	<u>2,601,307</u>	<u>490,799</u>	<u>817,073</u>
Disbursements:			
Operating:			
Public safety	1,139,269	-	-
Public works	666,366	17,895	-
Health and social services	-	-	-
Culture and recreation	536,621	-	-
Community and economic development	59,469	-	-
General government	499,030	-	-
Debt service	-	16,137	-
Capital projects	-	-	-
Total disbursements	<u>2,900,755</u>	<u>34,032</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(299,448)</u>	<u>456,767</u>	<u>817,073</u>
Other financing sources (uses):			
Bond and loan proceeds	119,522	-	-
Sale of capital assets	22,762	-	-
Operating transfers in	212,407	-	-
Operating transfers out	(8,000)	(250,000)	(804,182)
Total other financing sources (uses)	<u>346,691</u>	<u>(250,000)</u>	<u>(804,182)</u>
Net change in cash balances	47,243	206,767	12,891
Cash balances beginning of year	1,144,750	83,870	24,687
Cash balances end of year	<u>\$ 1,191,993</u>	<u>290,637</u>	<u>37,578</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	1,191,993	-	-
Special revenue funds	-	290,637	37,578
Capital projects fund	-	-	-
Total cash basis fund balances	<u>\$ 1,191,993</u>	<u>290,637</u>	<u>37,578</u>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
528,786	-	340,359	2,502,802
-	-	-	817,073
-	-	-	68,100
-	-	-	355,345
102	34,506	4,086	101,908
-	327,165	38,327	890,894
-	-	-	414,290
137,137	-	-	137,137
-	1,389,004	7,420	1,428,522
666,025	1,750,675	390,192	6,716,071
-	-	-	1,139,269
-	-	-	684,261
-	-	33,583	33,583
-	-	5,742	542,363
-	-	68,750	128,219
-	-	-	499,030
1,397,787	-	-	1,413,924
-	3,362,209	-	3,362,209
1,397,787	3,362,209	108,075	7,802,858
(731,762)	(1,611,534)	282,117	(1,086,787)
-	3,363	-	122,885
-	-	-	22,762
762,182	500,000	-	1,474,589
-	-	(257,407)	(1,319,589)
762,182	503,363	(257,407)	300,647
30,420	(1,108,171)	24,710	(786,140)
576,183	1,072,148	415,039	3,316,677
606,603	(36,023)	439,749	2,530,537
606,603	-	-	606,603
-	-	-	1,191,993
-	-	439,749	767,964
-	(36,023)	-	(36,023)
606,603	(36,023)	439,749	2,530,537

Exhibit C

City of Grimes

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

As of and for the year ended June 30, 2006

	Enterprise			Total
	Water	Sewer	Nonmajor - Solid Waste	
Operating receipts:				
Charges for service	\$ 1,392,658	952,646	154,413	2,499,717
Operating disbursements:				
Business type activities	615,012	274,787	208,007	1,097,806
Excess (deficiency) of operating receipts over (under) operating disbursements	777,646	677,859	(53,594)	1,401,911
Non-operating receipts (disbursements):				
Interest on investments	31	-	-	31
Debt service	(424,625)	(408,130)	-	(832,755)
Net non-operating receipts (disbursements)	(424,594)	(408,130)	-	(832,724)
Excess (deficiency) of receipts over (under) disbursements	353,052	269,729	(53,594)	569,187
Transfers:				
Operating transfers in	-	-	45,000	45,000
Operating transfers out	(200,000)	-	-	(200,000)
Total transfers	(200,000)	-	45,000	(155,000)
Net change in cash balances	153,052	269,729	(8,594)	414,187
Cash balances beginning of year	386,898	482,688	2,018	871,604
Cash balances end of year	\$ 539,950	752,417	(6,576)	1,285,791
Cash Basis Fund Balances				
Reserved for debt service	\$ 35,208	33,838	-	69,046
Unreserved	504,742	718,579	(6,576)	1,216,745
Total cash basis fund balances	\$ 539,950	752,417	(6,576)	1,285,791

See notes to financial statements.

City of Grimes

Notes to Financial Statements

June 30, 2006

(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, sewer and garbage 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, 2006, disbursements exceeded the amounts budgeted in the community and economic development and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 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 \$8,104 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
2007	\$ 675,000	199,225	466,000	362,561	1,141,000	561,786
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	385,000	123,540	543,000	285,424	928,000	408,964
2012 - 2016	2,180,000	373,320	3,048,000	1,091,626	5,228,000	1,464,946
2017 - 2021	455,000	27,175	3,697,000	445,951	4,152,000	473,126
Total	\$ 5,410,000	1,204,323	9,263,000	3,161,230	14,673,000	4,365,553

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.

Loan Agreements

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 \$498,681. 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 plus 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.

On September 6, 2005, the City entered into a loan agreement with a bank to borrow \$119,522 to purchase an ambulance. The loan bears interest at 4.79% per annum and matures on September 15, 2011. The City began making scheduled annual principal and interest payments of \$19,582 on September 15, 2005. The loan will be repaid from future collections of a debt service levy on all taxable property in the City.

Year Ending June 30,	Fire Truck			Ambulance			Total	
	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest	Principal	Interest
2007	3.38%	\$ 50,000	18,130	4.79%	\$ 14,670	4,912	64,670	23,042
2008	3.57	50,000	16,440	4.79	15,497	4,085	65,497	20,525
2009	3.74	50,000	14,655	4.79	16,239	3,343	66,239	17,998
2010	3.92	50,000	12,785	4.79	17,017	2,565	67,017	15,350
2011	4.09	50,000	10,825	4.79	17,832	1,750	67,832	12,575
2012 - 2015	4.24-4.58	198,681	22,140	4.79	18,686	896	217,367	23,036
Total		\$448,681	94,975		\$ 99,941	17,551	548,622	112,526

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, 2006:

Year Ending June 30,	Fire Truck	Truck and Snow Plow	Total
2007	\$ 18,020	16,137	34,157
2008	18,020	-	18,020
2009	18,020	-	18,020
Total minimum lease payments	54,060	16,137	70,197
Less amount representing interest	(5,974)	(862)	(6,836)
Present value of net minimum lease payments	\$ 48,086	15,275	63,361

Payments under the agreements for the year ended June 30, 2006 totaled \$34,157.

(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, 2006, 2005 and 2004 were \$35,133, \$30,706 and \$29,378, 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, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 29,000
Compensatory time	4,000
Total	<u>\$ 33,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Employee Benefits	\$ 212,407
Debt Service	General	8,000
	Special Revenue: Road Use Tax	250,000
	Tax Increment Financing	504,182
Capital Projects	Special Revenue: Tax Increment Financing	300,000
	Enterprise: Water	200,000
Enterprise: Solid Waste	Special Revenue: Emergency	45,000
Total		<u>\$ 1,519,589</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 531 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, 2006 were \$101,235.

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 in an amount not to exceed \$2,650,000 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, 2006, 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 four 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 \$1,023,000. The agreements do not include provisions for payment of interest.

During the year ended June 30, 2006, the City rebated \$231,523 of incremental taxes 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, 2006 is \$608,977.

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. In the event road use tax receipts are insufficient to make the required annual reimbursement, payments to the developer will continue until the City has reimbursed the amount specified in the agreement.

During the year ended June 30, 2006, the City reimbursed developers \$187,500 from road use tax receipts. Resources were transferred from the Special Revenue, Road Use Tax Fund to the Debt Service Fund and the payment of this obligation was charged to the debt service function. The outstanding principal balance on this agreement at June 30, 2006 is \$805,935.

These agreements are not a general obligation of the City. However, the debt payment of \$717,687 in the succeeding year is subject to the constitutional debt limitation of the City.

(9) Economic Development Loan

On January 10, 2006, the City approved an economic development loan agreement with Breeding True Value Hardware. The City loaned \$50,000 to assist in locating a store in the City of Grimes. The loan bears interest at 2% per annum and is to be repaid in monthly installments of \$460 beginning in June, 2006 for a period of ten years.

(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, 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.

(11) Construction Commitments

The City has entered into construction contracts totaling approximately \$3,706,000. As of June 30, 2006, costs of approximately \$2,775,000 had been paid on the contracts. The remaining \$931,000 will be paid as work on these projects progresses.

(12) Deficit Balances

The City had deficit balances at June 30, 2006, as follows:

Fund	Amount
Special Revenue:	
Metro West Grant	\$ 3,033
Capital Projects	36,023
Enterprise:	
Solid Waste	6,576

The deficit balances are the result of costs incurred prior to availability of funds. The deficit balances will be eliminated upon receipt of state grant funds, from the issuance of bonds and collections of charges for service, respectively.

(13) Subsequent Events

In July 2006, the City entered into a contract totaling \$204,199 for construction of the James Street box culvert. In August 2006, the City entered into a contract totaling \$312,210 for the South James Street water main extension.

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, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 2,502,802	-
Tax increment financing	817,073	-
Other city tax	68,100	-
Licenses and permits	355,345	-
Use of money and property	101,908	31
Intergovernmental	890,894	-
Charges for service	414,290	2,497,067
Special assessments	137,137	-
Miscellaneous	1,428,522	2,650
Total receipts	<u>6,716,071</u>	<u>2,499,748</u>
Disbursements:		
Public safety	1,139,269	-
Public works	684,261	-
Health and social services	33,583	-
Culture and recreation	542,363	-
Community and economic development	128,219	-
General government	499,030	-
Debt service	1,413,924	-
Capital projects	3,362,209	-
Business type activities	-	1,930,561
Total disbursements	<u>7,802,858</u>	<u>1,930,561</u>
Excess (deficiency) of receipts over (under) disbursements	(1,086,787)	569,187
Other financing sources (uses), net	300,647	(155,000)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(786,140)	414,187
Balances beginning of year	<u>3,316,677</u>	<u>871,604</u>
Balances end of year	<u>\$ 2,530,537</u>	<u>1,285,791</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
2,502,802	2,427,068	2,557,226	(54,424)
817,073	804,182	804,182	12,891
68,100	137,215	110,584	(42,484)
355,345	183,950	505,225	(149,880)
101,939	38,450	49,750	52,189
890,894	575,254	563,400	327,494
2,911,357	2,408,600	2,852,600	58,757
137,137	200,000	200,000	(62,863)
1,431,172	10,000	58,350	1,372,822
9,215,819	6,784,719	7,701,317	1,514,502
1,139,269	972,300	1,228,679	89,410
684,261	750,800	922,600	238,339
33,583	48,000	48,000	14,417
542,363	554,900	625,900	83,537
128,219	80,600	109,350	(18,869)
499,030	517,100	526,900	27,870
1,413,924	1,313,518	1,327,109	(86,815)
3,362,209	7,800,000	4,810,000	1,447,791
1,930,561	1,860,992	1,992,842	62,281
9,733,419	13,898,210	11,591,380	1,857,961
(517,600)	(7,113,491)	(3,890,063)	3,372,463
145,647	7,150,000	4,193,070	(4,047,423)
(371,953)	36,509	303,007	(674,960)
4,188,281	2,163,697	2,163,697	2,024,584
3,816,328	2,200,206	2,466,704	1,349,624

City of Grimes

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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, one budget amendment decreased budgeted disbursements by \$2,306,830. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the community and economic development and debt service functions.

Other 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, 2006

	Employee Benefits	Emergency	Metro West Grant
Receipts:			
Property tax	\$ 288,843	51,516	-
Use of money and property	-	-	-
Intergovernmental	-	-	30,550
Miscellaneous	-	-	-
Total receipts	288,843	51,516	30,550
Disbursements:			
Operating:			
Health and social services	-	-	33,583
Culture and recreation	-	-	-
Community and economic development	-	-	-
Total disbursements	-	-	33,583
Excess (deficiency) of receipts over (under) disbursements	288,843	51,516	(3,033)
Other financing (uses):			
Operating transfers out	(212,407)	(45,000)	-
Net change in cash balances	76,436	6,516	(3,033)
Cash balances beginning of year	20,531	95,374	-
Cash balances end of year	\$ 96,967	101,890	(3,033)
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 96,967	101,890	(3,033)

See accompanying independent auditor's report.

Special Revenue						
Economic Development Revolving Loans	Fire Department FEMA Grant	Park and Recreation	Library	Rolow Memorial	Total	
-	-	-	-	-	-	340,359
4,086	-	-	-	-	-	4,086
-	-	-	7,777	-	-	38,327
-	-	-	7,077	343	-	7,420
4,086	-	-	14,854	343	-	390,192
-	-	-	-	-	-	33,583
-	-	-	5,742	-	-	5,742
68,750	-	-	-	-	-	68,750
68,750	-	-	5,742	-	-	108,075
(64,664)	-	-	9,112	343	-	282,117
-	-	-	-	-	-	(257,407)
(64,664)	-	-	9,112	343	-	24,710
237,272	3,172	13,145	44,055	1,490	-	415,039
172,608	3,172	13,145	53,167	1,833	-	439,749
172,608	3,172	13,145	53,167	1,833	-	439,749

City of Grimes
Schedule of Indebtedness
Year ended June 30, 2006

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 agreements:			
Fire truck	Mar 22, 2005	3.05-4.58%	\$ 498,681
Ambulance	Sep 6, 2005	4.79	119,522
Total			
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
2,365,000	-	175,000	2,190,000	103,808
2,390,000	-	150,000	2,240,000	79,962
1,305,000	-	325,000	980,000	31,630
\$ 6,060,000	-	650,000	5,410,000	215,400
5,084,000	-	241,000	4,843,000	181,083
4,623,637	3,363	207,000	4,420,000	198,816
\$ 9,707,637	3,363	448,000	9,263,000	379,899
498,681	-	50,000	448,681	24,335
-	119,522	19,581	99,941	-
\$ 498,681	119,522	69,581	548,622	24,335
62,311	-	14,225	48,086	3,795
29,735	-	14,460	15,275	1,677
\$ 92,046	-	28,685	63,361	5,472

City of Grimes
Bond Maturities
June 30, 2006

Year Ending June 30,	General Obligation Bonds						Total
	Corporate Purpose		Corporate Purpose		Refunding		
	Issued Jan 1, 2002		Issued Mar 1, 2003		Issued May 29, 2003		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
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>\$2,190,000</u>		<u>\$2,240,000</u>		<u>\$ 980,000</u>	<u>5,410,000</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		Interest		Interest			
Rates	Amount	Rates	Amount	Total	Rates	Amount	Total
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	389,000	797,000
	<u>\$ 4,345,000</u>		<u>\$ 498,000</u>	<u>4,843,000</u>		<u>\$4,420,000</u>	<u>9,263,000</u>

Schedule 4

City of Grimes

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

For the Last Four Years

	2006	2005	2004	2003
Receipts:				
Property tax	\$ 2,502,802	2,307,906	2,097,510	1,950,430
Tax increment financing	817,073	670,298	778,617	339,941
Other city tax	68,100	107,372	17,606	73,911
Licenses and permits	355,345	295,902	199,711	181,354
Use of money and property	101,908	123,906	87,329	51,408
Intergovernmental	890,894	1,378,470	566,563	572,297
Charges for service	414,290	426,201	182,481	118,126
Special assessments	137,137	437,247	-	-
Miscellaneous	1,428,522	2,669,863	31,724	278,697
Total	\$ 6,716,071	8,417,165	3,961,541	3,566,164
Disbursements:				
Operating:				
Public safety	\$ 1,139,269	1,430,441	671,961	566,187
Public works	684,261	771,074	680,222	873,301
Health and social services	33,583	39,000	48,000	42,250
Culture and recreation	542,363	411,536	354,637	388,090
Community and economic development	128,219	57,634	47,633	37,318
General government	499,030	445,296	383,215	338,916
Debt service	1,413,924	1,092,771	900,224	686,192
Capital projects	3,362,209	4,817,303	2,406,198	2,601,271
Total	\$ 7,802,858	9,065,055	5,492,090	5,533,525

See accompanying independent auditor's report.



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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, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated September 25, 2006. 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 believe the reportable condition described above is a material weakness.

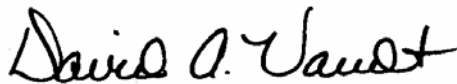
Compliance and Other Matters

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, 2006 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

September 25, 2006

City of Grimes
Schedule of Findings
Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITION:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one person has control over each of the following areas for the City:

- (1) Cash – preparing bank account reconciliations, initiating disbursements, signing disbursements and depositing cash.
- (2) Receipts – depositing and reconciling.

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

Response – The City had limited resources during the change of personnel; however, as employees are being trained, the segregation of duties is once again being realized. An audit committee will be established as part of the budgetary process. Their role will be to review all internal policies and make recommendations for improvements, changes or approval of the policies as they currently exist.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Grimes
Schedule of Findings
Year ended June 30, 2006

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the community and economic development and debt service functions.

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

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

Response – The City will more closely monitor all expenditures to ensure that the budget is not exceeded prior to an amendment.

Conclusion – Response accepted.

- (2) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Boesen the Florist	Sympathy Plant	\$ 72
Target	Cake/supplies	68

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

City Resolution No. 06-0398 states, in part, “the City may expend an amount not to exceed \$40 for each circumstance whereby there may be an illness, death, birth or other situation as approved by the Council affecting the people or the immediate family of those people directly serving the City on Boards, Commission, Council or City employees.” The disbursements noted exceed the maximum amount stated in the resolution.

Recommendation – The Council should comply with City Resolution No.06-0398 regarding the disbursement of City funds. In addition, the Council should determine and document the public purpose served by these disbursements before authorizing any further payments.

Response – The City is in the process of amending this resolution to make it more applicable to the current costs of providing items to support those indicated above in the special circumstances also noted above. That resolution was passed in 1998 and is not indicative of current costs.

Conclusion – Response accepted. The Council should determine the public purpose served by each disbursement.

City of Grimes

Schedule of Findings

Year ended June 30, 2006

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No transactions between the City and City officials and 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 insure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – No instances of 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 – The provisions of 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 May 31, 2006 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 – The City will make monthly transfers to the revenue bond sinking account for the purpose of making the bond principal and interest when payments are due.

Conclusion – Response accepted.

- (9) Notice of Public Hearing for Public Improvements – The City did not publish notice of the public hearing and bid letting on the Grimes Industrial Park or the Heartland pumping station projects as required by Chapters 384.102 and 362.3 of the Code of Iowa.

Recommendation – Before entering into any contract for public improvements where the cost is \$25,000 or more, the Council should set a date for a public hearing and give notice at least four but not more than twenty days prior to the hearing as provided in Chapter 362.3 of the Code of Iowa.

Response – The City will more closely monitor all notices of public hearing to ensure that they have been published as required by law.

Conclusion – Response accepted

City of Grimes
Schedule of Findings
Year ended June 30, 2006

(10) Financial Condition – The City had deficit balances at June 30, 2006, as follows:

<u>Fund</u>	<u>Amount</u>
Special Revenue:	
Metro West Grant	\$ 3,033
Capital Projects	36,023
Enterprise:	
Solid Waste	6,576

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – The City ended with a deficit in these accounts because of a delay in the receipt of reimbursement from the Metro West Grant, a delay in the issuance of bonds for the Capital Projects Fund and an underestimation of the amount of General Fund dollars required to supplement the Solid Waste Fund until rates are increased as needed.

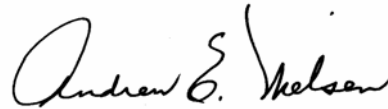
Conclusion – Response accepted.

City of Grimes

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager
Lesley R. Geary, CPA, Senior Auditor II
Phillip J. Cloos, Assistant Auditor
Bryan M. Walker, Auditor Intern

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

Andrew E. Nielsen, CPA
Deputy Auditor of State