



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

December 20, 2007

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

The City's receipts totaled \$10,028,777 for the year ended June 30, 2007, a 7 percent increase over 2006. The receipts included \$2,902,319 in property tax, \$761,226 from tax increment financing, \$3,336,618 from charges for service, \$594,819 from operating grants, contributions and restricted interest, \$2,265,570 from capital grants, contributions and restricted interest, \$104,814 from unrestricted interest on investments and \$63,411 from other general receipts.

Disbursements for the year totaled \$11,093,169, a 14 percent increase over the prior year, and included \$5,092,309 for capital projects, \$1,371,799 for debt service and \$824,398 for public safety. Also, disbursements for business type activities totaled \$2,005,486.

The increase in receipts is due primarily to reimbursements from developer agreements and RISE grants for various projects and an increase in property tax. The increase in disbursements is due primarily to an increase in capital projects activity, including the NW 54th Avenue paving project.

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, 2007

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City of Grimes

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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	Resigned April 2007
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, 2007, 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.

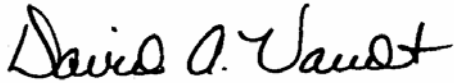
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

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, 2007, 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 October 25, 2007 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 16 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 four years ended June 30, 2006 (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

October 25, 2007

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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Receipts and transfers of the City's governmental activities increased 9.8%, or approximately \$690,000, from fiscal year 2006 to fiscal year 2007. This was a very busy year for the City. Over \$10,956,000 of contracts for capital improvements have been entered into. As well, the RISE projects started in early fiscal year 2006 were completed. The RISE projects, as well as a sewer capital agreement, provided over \$2.2 million in either RISE or developer reimbursements. Once again, it should be noted these partnerships with developers and with the Iowa Department of Transportation (IDOT) greatly facilitated the completion of these improvements.

General Fund property tax revenues increased approximately \$218,000, which is the result of the regular taxable valuation increase from \$188,425,786 to \$221,212,526.

Residential and commercial construction also increased this year, resulting in an increase of approximately \$71,000 in additional revenue from building permit fees, an increase of approximately \$12,000 in water tapping fees and an increase of approximately \$24,000 in sewer tapping fees. These increases are due to the steady growth of building construction in the City.

Also, interest revenue from investments increased approximately \$45,000, mainly due to money management techniques and the conversion to higher interest accounts.

The largest decrease in revenues was experienced in the building development fee account. This account is the reimbursement of billed engineering and inspection fees for site plans, plats and public infrastructure improvements. There was a reduction of approximately \$164,000 from last year. Although there was an increase in building permits, actual platting of developments decreased, resulting in less inspection time for public infrastructure such as streets, water and sewer. This also accounts for the decrease in expenditures for these engineering fees of approximately \$191,000.

In addition, road use tax receipts experienced a slight reduction of \$2,231 due to the actual reduction in overall State road use tax revenues received in 2007. Thus, the allocation to each city was reduced. Special assessment proceeds from the extension of a sanitary sewer south to Capitol City Business Park also resulted in receipts of approximately \$49,000 in the Debt Service Fund.

The Grimes Community Complex (the old Dallas Center-Grimes Middle School) was also opened the summer of 2006 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. The resulting programming was expanded and receipts increased by \$16,571. As well, three other rooms were revamped to offer more opportunities for usage. The YMCA also offered programming through this building. To date, there is not a usage fee for the rental of this building, although patrons are charged for key cards to access the building. The City Council will be considering a rental charge program for this building in fiscal year 2008.

- Disbursements for the City's governmental activities increased 16.5%, or approximately \$1,285,000, from fiscal year 2006 to fiscal year 2007. The increase in spending is mainly accounted for in the number of capital projects contracted in fiscal year 2007. Approximately \$1,730,000 in additional capital improvement funds were expended this year. The net difference in disbursements, after eliminating the effects of capital projects and debt service, is a decrease of approximately \$403,000 from \$3,026,725 in 2006 to \$2,623,575 in fiscal year 2007. Spending for public safety decreased from \$1,139,269 to \$824,398. Most of this decrease can be accounted for from the decrease in the billable engineering disbursement. As indicated above, the receipts from the billable engineering account decreased approximately \$164,000. In direct correlation to this, the disbursements decreased \$191,000. The difference of these two amounts is accounted for in the timing of the reimbursements of the billed engineering disbursements. The disbursements for the contract with Polk County for police protection actually increased from \$275,132 to \$294,681 and will increase to \$363,600 in fiscal year 2008 due to an increase in man-hour coverage. Another deputy has been added for an additional eight hours per day. Public works spending increased \$83,333 because more road use tax funds were expended and personnel costs were higher due to the addition of another employee. Culture and recreation spending decreased \$61,869, mainly because \$65,357 in park equipment had been purchased in fiscal year 2006. Notable capital projects include the 2007 Trail Project where over three miles of asphalt and concrete trails were installed, including four pedestrian bridges and a large culvert under James Street. Other capital projects included finalizing 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 a 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, the South 19th roadway assessment project, the South 6th Street assessment project and the installation of a large meter pit to facilitate the sale of water to Gould Heights (Thorpe) Water system.
- The City's governmental activities total cash basis net assets decreased 54.6%, or approximately \$1,381,000, from June 30, 2006 to June 30, 2007. Although there was a lot of activity in the Capital Projects Fund, resulting in a decrease in the fund balance of \$2,154,749, a portion of the spending was offset by developer or RISE reimbursements. The General Fund increased \$545,896. 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 \$177,698, which will be incorporated into fiscal year 2008 transportation capital projects and will be disbursed. The Debt Service Fund increased \$39,281 because proceeds are accumulating from special assessments that are not yet sufficient for prepayment on the bond at this time. The other nonmajor governmental fund balances decreased \$7,349, mostly due to the transfer of emergency funds offset by an increase in employee benefits property tax receipts, library county tax 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 and the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The 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, Tax Increment Financing and Economic Development Revolving Loan, 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.

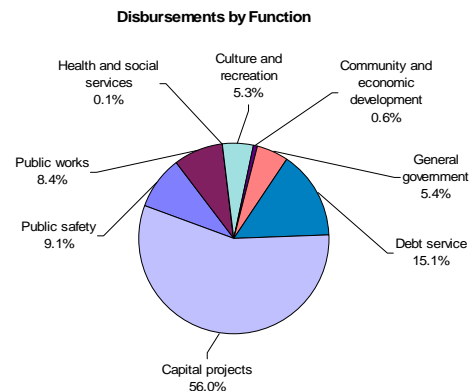
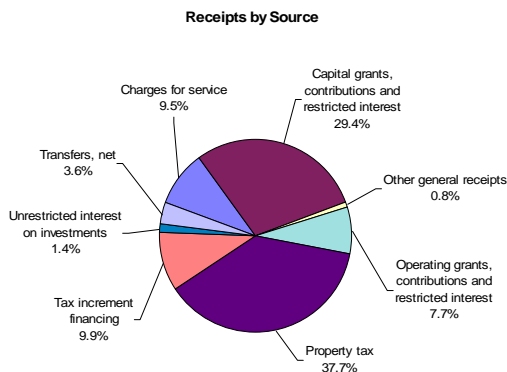
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City, and the solid waste fund.

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 \$2.530 million to \$1.149 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,	
	2007	2006
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 734,152	829,312
Operating grants, contributions and restricted interest	594,819	585,521
Capital grants, contributions and restricted interest	2,265,570	1,853,649
General receipts:		
Property tax	2,902,319	2,515,573
Tax increment financing	761,226	817,073
Unrestricted interest on investments	104,751	59,614
Bond and loan proceeds	-	122,885
Other general receipts	63,411	78,091
Transfers, net	280,000	155,000
Total receipts and transfers	<u>7,706,248</u>	<u>7,016,718</u>
Disbursements:		
Public safety	824,398	1,139,269
Public works	767,594	684,261
Health and social services	6,067	33,583
Culture and recreation	480,494	542,363
Community and economic development	58,800	128,219
General government	486,222	499,030
Debt service	1,371,799	1,413,924
Capital projects	5,092,309	3,362,209
Total disbursements	<u>9,087,683</u>	<u>7,802,858</u>
Decrease in cash basis net assets	(1,381,435)	(786,140)
Cash basis net assets beginning of year	2,530,537	3,316,677
Cash basis net assets end of year	<u>\$ 1,149,102</u>	<u>2,530,537</u>



The City's total receipts and transfers for governmental activities increased 9.8%. The total cost of all programs and services increased 16.5%, or \$1,284,825. No programs were added or deleted this year. A significant increase in tax receipts resulted from an increase in regular taxable valuation from \$188,425,786 to \$221,212,526. Regular taxable valuation increased 17.40%, or \$32,786,740. Property tax revenues, not including TIF proceeds or other city taxes, increased \$350,861. The City also completed large transportation and utility infrastructure projects this year, resulting in \$2,216,510 in reimbursements from developer agreements and RISE grants.

The City's property tax rates for fiscal year 2007 decreased slightly from fiscal year 2006, with a rate of \$12.746 per \$1,000 of taxable valuation versus \$12.83 per \$1,000 of taxable valuation. The rollback percentage decreased from 47.964% to 45.996%. The net result of the tax rate decreasing slightly and the decrease in the rollback again resulted in an actual net decrease in property tax to the property owner. The effect on a property valued at \$150,000 was a decrease in tax of \$43.72. The residential rollback percentage is projected to further decrease to 45.55% and the tax rate has increased to \$12.925 per \$1,000 of taxable valuation for fiscal year 2008. This nominal increase coupled with the decrease in the rollback has a result of increasing the net city taxes paid by the homeowner of that same \$150,000 home by \$4.09. Note, however, the tax levy to property owners may still increase at a higher percentage due to an overall increase in the valuation of their property or an increase in school, county or other tax levies.

The cost of all governmental activities this year was \$9.088 million compared to \$7.803 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 \$5.493 million because some of the cost was paid by those directly benefiting from the programs (\$734,152), by other governments and organizations that subsidized certain programs with operating grants, contributions and restricted interest of \$594,819 or from capital grants, contributions and restricted interest (developer agreements, RISE, etc) of \$2,265,570. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in fiscal year 2007 from \$3,268,482 to \$3,594,541, principally due to the increase in receipts from developer agreements and the RISE grants. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$3,663,545 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,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 1,411,397	1,392,658
Sewer	1,022,803	952,646
Solid waste	168,266	154,413
General receipts:		
Unrestricted interest on investments	63	31
Total receipts	<u>2,602,529</u>	<u>2,499,748</u>
Disbursements and transfers:		
Water	1,088,405	1,039,637
Sewer	705,133	682,917
Solid waste	211,948	208,007
Transfers, net	280,000	155,000
Total disbursements and transfers	<u>2,285,486</u>	<u>2,085,561</u>
Increase in cash basis net assets	317,043	414,187
Cash basis net assets beginning of year	1,285,791	871,604
Cash basis net assets end of year	<u>\$ 1,602,834</u>	<u>1,285,791</u>

Total business type activities receipts for the fiscal year were \$2.6 million compared to \$2.5 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 over the last few years 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 \$317,043 over the prior year because of the strong fiscal management in this area to increase balances to pay for capital projects, thus decreasing debt service. Although revenue only increased 4.1%, disbursements and transfers increased 9.6%. Thus, the overall effect of the prior year's increase in net assets of \$414,187 remained relatively steady. Total disbursements and net transfers for the fiscal year increased from \$2.086 million to \$2.285 million in fiscal year 2007. This was an increase of \$199,925, or 9.58%.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Grimes completed the year, its governmental funds reported a combined fund balance of \$1,149,102, a decrease of \$1,381,435 from last year's total of \$2,530,537. 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 \$545,896 over the prior year to \$1,737,889. This increase was due to the increase in total valuation resulting in an increase in property tax received. The receipts from the General Fund increased \$238,135. As well, the disbursements decreased \$349,060. 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 \$177,698 to \$468,335 during the fiscal year. The ending balance of \$468,335 is being held to facilitate road construction projects in fiscal year 2008. 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 45.996% for fiscal year 2007. 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 \$44,287, an increase of \$6,709 over the previous year. The City only certifies enough TIF receipts to pay off the current year's portion of the debt each year. If the resulting taxes generated from the increment in valuation are more than needed to make the bond payments, the City, County and School District receive the benefit of that tax revenue.

- The Economic Development Revolving Loan Fund cash balance increased \$11,079 to \$183,687. No disbursements were made from the fund in fiscal year 2007.
- The Debt Service Fund cash balance increased \$39,281 to \$645,884 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 \$2,154,749 to a negative \$2,190,772 due to the timing of project payments near the close of the 2007 fiscal year and the timing of the passage of the \$5.2 million bond issue.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$123,055 to \$663,005, due primarily to the fact water receipts exceeded the actual disbursements incurred. In addition, the balance still allowed \$200,000 to be transferred to the Capital Projects Fund. Higher utility costs and chemical costs account for the increase in disbursements of \$48,768. Note – water and sewer tapping fees are used exclusively to finance maintenance and replacement of existing lines.
- The Sewer Fund cash balance increased \$117,670 to \$870,087. In addition, \$200,000 was transferred to the Capital Projects Fund. \$70,157 of this increase is accounted for in the actual sewer usage sales as well as sewer tapping fees.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The first amendment was approved on December 12, 2006. This amendment provided for an increase in other financing sources, which includes bond sales, proceeds from RISE grants and developer reimbursements of \$7,492,404. This amendment also provided for an increase in disbursements for public safety in the amount of \$2,177. Debt service was increased by \$35,719 to account for the ambulance and plow leases. Capital projects was amended by \$6,956,500 to account for the projected payments for the ongoing capital projects and for the new ones: South 6th Street, South 19th Street/Little Beaver, Looping of the South Water Main, Gould Heights Meter Pit, as well as the ongoing projects from 2006. Business type activities was also amended by \$40,000 due to an increase in the need for chemicals for both the water and wastewater plants due to increase in production. 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, but this year the progress of the capital projects necessitated an earlier amendment.

The second amendment was approved on March 27, 2007. This amendment provided for a decrease of \$8,000 of property tax due to a decrease expected for homestead taxes. An additional \$30,800 was amended due to an expected increase in receipts from building permits due to construction. Use of money and property was amended by \$14,450 due to an increase in receipts from interest on investments. A decrease of \$35,900 due to the non-renewal of the Metro West Grant decreased intergovernmental. Charges for service increased \$39,801 due to additional expected water tapping, water connection and new building usage fees from building permits. Other financing sources increased \$210,998 to account for the transfers from sewer utility to sewer capital. This amendment also provided for a decrease in disbursements in almost every program. Public safety decreased \$337,437 since the sheriff's contract didn't account for an additional shift until late fiscal year 2007 and the billable engineering disbursements decreased \$200,000. Health and social services decreased \$41,933, mostly due to the loss of the Metro West Grant. Culture and recreation decreased \$55,620, mainly due to the transfer of wages to the street department to simplify classifications of personnel. Capital projects decreased \$705,000, again due to the timing of project completions and payments. Public works, business type activities and transfers increased \$243,601, \$80,000 and \$292,000, respectively. The increase in public works was due to the personnel reclassification, as noted in the decrease in culture and recreation, as well as \$200,000 in RUT funds for the construction of a new building for the City Maintenance complex. The increase in business type activities was mainly due to an increase in solid waste fees and disbursements from sewer tapping for the repayment of fees from a development agreement. The transfers were mainly due to the \$200,000 transferred out of sewer operations to sewer capital, as well as an additional \$92,000 needed from the Emergency Fund to cover the costs in the Solid Waste Account.

When all was said and done and the final numbers were calculated as of June 30, 2007, the variations between what was budgeted and what was actually received or disbursed are as follows. Public works expended \$205,842 less than what was budgeted, mainly due to the billable engineering disbursements as indicated in the financial highlights. Costs for infrastructure and plat inspections were down this year. As well, the Polk County Sheriff contract and the wages for Fire and Rescue were down. Culture and recreation came in \$70,169 under budget, mainly due to lower benefit costs for the Library due to the timing of the hiring of full time personnel. As well, utilities were lower than originally budgeted. The Park Department did not expend their budgeted \$12,500 from hotel/motel tax but will in the 2008 budget year. In addition, the Park Department didn't expend the \$20,000 they had planned for infrastructure in the park systems. This will be expended in fiscal year 2008. Community and economic development didn't expend \$38,701 of their budget, mainly due to hotel/motel tax that was budgeted for their use but not disbursed. As well, \$17,000 in General Fund dollars was not expended by economic development. General government came in \$44,578 under budget, mostly due to wages from vacancies as well as \$19,000 that had been budgeted for miscellaneous expense but was not needed. Capital projects was \$1.28 million under budget due to the timing of projects, which consistently happens every budget year. Water and sewer operating utilities were \$25,829 and \$57,591 under budget, respectively. The water budget is more difficult to summarize because although many of the line items were under budget, such as plant repairs, building and grounds and miscellaneous and test, many were over budget, such as wages, chemicals and office disbursements. Sewer can be accounted for mostly due to the equipment maintenance, line maintenance and chemical line items. Solid waste also came in \$48,051 under budget because the amendment was overestimated.

The budget to year-end receipts were also reviewed and are as follows. Special assessments are hard to estimate because, although most are now on a ten year payment plan, some prepayments are made from time to time. Assessments had been budgeted to receive \$200,000 in receipts. However, only \$49,060 was received. TIF receipts were \$43,539 more than budgeted, mostly due to the inability to estimate receipts from mobile home taxes. Licenses and permits received \$39,606 more than budgeted because building permits receipts were \$77,749 more than estimated and park development fees received were \$37,500 less. The use of money and property received \$94,837 more than budgeted, mainly due to a concerted effort to maximize all cash assets in higher interest accounts. Water operations and tapping fees were \$36,597 over

budget, mainly due to tapping fees and remote connections from new construction. Sewer operations was \$71,199 under what had been anticipated because \$200,000 had been budgeted for a sewer extension agreement that was going to temporarily accommodate a development in the City of Johnston until the City of Johnston could extend a sewer line. Tapping fees were \$135,085 over budget, again due to new construction. Solid waste was also \$13,266 ahead of the revenue originally projected, also due to new construction. General charges were \$71,304 under budget, again due to building development fees being lower, as also indicated in the disbursements for building development fees noted above. The additional difference in the overall budget for receipts and other sources is due to the timing of the \$5.2 million dollar bond issue that wasn't actually passed until the 2008 fiscal year.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$14.049 million in bonds and other long-term debt outstanding, compared to \$15.285 million last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2007	2006
General obligation bonds	\$ 4,735	5,410
Revenue bonds	8,797	9,263
Loan agreement	484	549
Lease-purchase agreements	33	63
Total	<u>\$ 14,049</u>	<u>15,285</u>

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, 2007 was approximately \$767,000.

The City continues to carry a general obligation bond rating of A3 assigned by Moody's Investor Service to the City's debt in fiscal year 2007. 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 \$5.252 million is significantly below its constitutional debt limit of \$18.895 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 2008 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 \$357,735,559 in fiscal year 2007 to \$406,655,504 for the 2008 fiscal year budget. This was an increase of 13.67%, or \$48,919,945. Property tax receipts are projected to increase by \$448,315. Building permits have remained relatively steady with 131 permits issued in fiscal year 2005 with a total value of \$21,646,778. In fiscal year 2006, there were 102 single-family permits issued with a total value of \$23,445,036 and in fiscal year 2007 there were 120 single family permits issued with a total value of \$15,254,370 for new construction. In addition, in fiscal year 2007 there were 92 town home and multi family permits issued with a valuation totaling \$8,940,138 and 18 commercial permits totaling \$10,743,944. The City conducted a special census in September 2005 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 that 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: 54th Avenue Improvements, S 19th Street Extension/Little Beaver Assessment, Grimes Mapping, Phase II Stormwater Permit, Grimes Storm Sewer Mapping, Xenia Water Agreement, South 6th Street Improvements, James Street Water and Sewer Extension, Highway 141 Water and Sewer Extension and Highway 44 Improvements. In the next few months, the South 11th Street Eastern Road Construction Project, as well as Highway 44 Improvements and the potential to extend South Gateway Drive, will be considered. Improvements continue on the Grimes Community Complex with the paving of the parking lot and gym floor reconstruction being considered. The City Council is currently prioritizing a \$41 million capital improvement project list.

The City of Grimes completed the annexation of 974 acres in Dallas County. In November 2006, the City completed its first voluntary annexation that included a portion being involuntarily annexed. In total, 169.71 acres were annexed on the NE corner of Highway 141 and Highway 44. In addition, two smaller annexations were completed, both being less than one acre. The addition of over 1,145 additional acres put the City in a continued position for strong economic growth.

In the next few years, the non-annexation agreements with the Cities of Johnston, Urbandale, Granger, Dallas Center and Waukee will be renegotiated to determine future boundary lines.

These indicators were taken into account when adopting the budget for fiscal year 2008. Amounts available for appropriation in the operating budget are \$7.457 million, an increase of 4.6% over the final 2007 budget of \$7.125 million. Property tax (benefiting from the increases in assessed valuations) and increases in development and inspection fees provide this increase. Historically, actual receipts exceed budgeted receipts. The City will use these receipts to finance programs it currently offers, complete the capital improvement projects 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 5.9%.

If these estimates are realized, the City's budgeted cash balance is expected to significantly increase.

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 kellbrown@ci.grimes.ia.us.

Basic Financial Statements

City of Grimes

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2007

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 824,398	648,544	300	-
Public works	767,594	-	488,568	-
Health and social services	6,067	-	9,100	-
Culture and recreation	480,494	46,908	52,091	-
Community and economic development	58,800	-	11,079	-
General government	486,222	5,650	33,537	-
Debt service	1,371,799	-	144	49,060
Capital projects	5,092,309	33,050	-	2,216,510
Total governmental activities	9,087,683	734,152	594,819	2,265,570
Business type activities:				
Water	1,088,405	1,411,397	-	-
Sewer	705,133	1,022,803	-	-
Solid waste	211,948	168,266	-	-
Total business type activities	2,005,486	2,602,466	-	-
Total	\$ 11,093,169	3,336,618	594,819	2,265,570
General Receipts:				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Unrestricted interest on investments				
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
(175,554)	-	(175,554)
(279,026)	-	(279,026)
3,033	-	3,033
(381,495)	-	(381,495)
(47,721)	-	(47,721)
(447,035)	-	(447,035)
(1,322,595)	-	(1,322,595)
(2,842,749)	-	(2,842,749)
(5,493,142)	-	(5,493,142)
-	322,992	322,992
-	317,670	317,670
-	(43,682)	(43,682)
-	596,980	596,980
(5,493,142)	596,980	(4,896,162)
2,264,960	-	2,264,960
761,226	-	761,226
637,359	-	637,359
104,751	63	104,814
63,411	-	63,411
280,000	(280,000)	-
4,111,707	(279,937)	3,831,770
(1,381,435)	317,043	(1,064,392)
2,530,537	1,285,791	3,816,328
\$ 1,149,102	1,602,834	2,751,936
\$ 468,335	-	468,335
645,884	56,111	701,995
487,766	-	487,766
(452,883)	1,546,723	1,093,840
\$ 1,149,102	1,602,834	2,751,936

City of Grimes

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

As of and for the year ended June 30, 2007

	Special Revenue		
	General	Road Use Tax	Tax Increment Financing
Receipts:			
Property tax	\$ 1,851,232	-	-
Tax increment financing	-	-	761,226
Other city tax	112,067	-	-
Licenses and permits	425,331	-	-
Use of money and property	110,401	-	-
Intergovernmental	45,753	488,568	-
Charges for service	240,383	-	-
Special assessments	-	-	-
Miscellaneous	54,275	-	-
Total receipts	<u>2,839,442</u>	<u>488,568</u>	<u>761,226</u>
Disbursements:			
Operating:			
Public safety	824,398	-	-
Public works	706,725	60,870	-
Health and social services	-	-	-
Culture and recreation	475,551	-	-
Community and economic development	58,799	-	-
General government	486,222	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>2,551,695</u>	<u>60,870</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>287,747</u>	<u>427,698</u>	<u>761,226</u>
Other financing sources (uses):			
Operating transfers in	266,149	-	-
Operating transfers out	(8,000)	(250,000)	(754,517)
Total other financing sources (uses)	<u>258,149</u>	<u>(250,000)</u>	<u>(754,517)</u>
Net change in cash balances	545,896	177,698	6,709
Cash balances beginning of year	1,191,993	290,637	37,578
Cash balances end of year	<u>\$ 1,737,889</u>	<u>468,335</u>	<u>44,287</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	1,737,889	-	-
Special revenue funds	-	468,335	44,287
Capital projects fund	-	-	-
Total cash basis fund balances	<u>\$ 1,737,889</u>	<u>468,335</u>	<u>44,287</u>

See notes to financial statements.

Economic Development Revolving Loan	Debt Service	Capital Projects	Nonmajor	Total
-	637,359	-	365,072	2,853,663
-	-	-	-	761,226
-	-	-	-	112,067
-	-	-	-	425,331
11,079	144	33,050	-	154,674
-	-	521,243	18,270	1,073,834
-	-	-	-	240,383
-	49,060	-	-	49,060
-	-	1,695,267	6,468	1,756,010
11,079	686,563	2,249,560	389,810	7,426,248
-	-	-	-	824,398
-	-	-	-	767,595
-	-	-	6,067	6,067
-	-	-	4,943	480,494
-	-	-	-	58,799
-	-	-	-	486,222
-	1,371,799	-	-	1,371,799
-	-	5,092,309	-	5,092,309
-	1,371,799	5,092,309	11,010	9,087,683
11,079	(685,236)	(2,842,749)	378,800	(1,661,435)
-	724,517	688,000	-	1,678,666
-	-	-	(386,149)	(1,398,666)
-	724,517	688,000	(386,149)	280,000
11,079	39,281	(2,154,749)	(7,349)	(1,381,435)
172,608	606,603	(36,023)	267,141	2,530,537
183,687	645,884	(2,190,772)	259,792	1,149,102
-	645,884	-	-	645,884
-	-	-	-	1,737,889
183,687	-	-	259,792	956,101
-	-	(2,190,772)	-	(2,190,772)
183,687	645,884	(2,190,772)	259,792	1,149,102

City of Grimes

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

As of and for the year ended June 30, 2007

	Enterprise			
	Water	Sewer	Nonmajor - Solid Waste	Total
Operating receipts:				
Charges for service	\$ 1,411,397	1,022,803	168,266	2,602,466
Operating disbursements:				
Business type activities	663,482	285,639	211,948	1,161,069
Excess (deficiency) of operating receipts over (under) operating disbursements	747,915	737,164	(43,682)	1,441,397
Non-operating receipts (disbursements):				
Interest on investments	63	-	-	63
Debt service	(424,923)	(419,494)	-	(844,417)
Net non-operating disbursements	(424,860)	(419,494)	-	(844,354)
Excess (deficiency) of receipts over (under) disbursements	323,055	317,670	(43,682)	597,043
Transfers:				
Operating transfers in	-	-	120,000	120,000
Operating transfers out	(200,000)	(200,000)	-	(400,000)
Total transfers	(200,000)	(200,000)	120,000	(280,000)
Net change in cash balances	123,055	117,670	76,318	317,043
Cash balances beginning of year	539,950	752,417	(6,576)	1,285,791
Cash balances end of year	\$ 663,005	870,087	69,742	1,602,834
Cash Basis Fund Balances				
Reserved for debt service	\$ 56,111	-	-	56,111
Unreserved	606,894	870,087	69,742	1,546,723
Total cash basis fund balances	\$ 663,005	870,087	69,742	1,602,834

See notes to financial statements.

City of Grimes

Notes to Financial Statements

June 30, 2007

(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 Economic Development Revolving Loan Fund is used to account for grant funds available for loans to generate economic development within the City.

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 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 \$8,503 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
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	400,000	108,525	563,000	264,195	963,000	372,720
2013-2017	2,005,000	282,770	3,169,000	972,351	5,174,000	1,255,121
2018-2021	230,000	9,200	3,013,000	301,031	3,243,000	310,231
Total	\$ 4,735,000	1,005,098	8,797,000	2,798,669	13,532,000	3,803,767

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 began making 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 Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest
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	4.24	50,000	8,780	4.79	18,687	896	68,687	9,676
2013-2015	4.24-4.38	148,681	13,360		-	-	148,681	13,360
Total		\$ 398,681	76,845		\$ 85,272	12,639	483,953	89,484

Payments under the agreements for the year ended June 30, 2007 totaled \$87,712.

Lease-Purchase Agreements

In prior years, the City entered into lease-purchase agreements to lease a fire truck and a truck and snow plow. During the year ended June 30, 2007, the lease-purchase agreement for the truck and snow plow were paid in full. The following is a schedule of the future minimum lease payments and the present value of net minimum lease payments under the agreement in effect at June 30, 2007:

Year Ending June 30,	Fire Truck
2008	18,020
2009	18,020
Total minimum lease payments	36,040
Less amount representing interest	(3,045)
Present value of net minimum lease payments	\$ 32,995

Payments under the agreements for the year ended June 30, 2007 totaled \$34,156.

(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, 2007, 2006 and 2005 were \$43,140, \$35,133 and \$30,706, 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, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 37,000
Compensatory time	10,000
Total	<u>\$ 47,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Employee Benefits	\$ 266,149
Debt Service	General Special Revenue: Road Use Tax Tax Increment Financing	8,000 250,000 466,517
Capital Projects	Special Revenue: Tax Increment Financing Enterprise: Water Sewer	288,000 200,000 200,000
Enterprise: Solid Waste	Special Revenue: Emergency	120,000
Total		<u>\$ 1,798,666</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 556 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, 2007 were \$112,888.

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 \$3,000,000 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 occurrence, 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, 2007, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

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

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

(8) Development and Rebate Agreements

The City has entered into three development and rebate agreements to assist in certain urban renewal projects. The City agreed to rebate incremental taxes paid by the developers in exchange for the reimbursed costs of certain infrastructure improvement projects constructed by the City as set forth in the urban renewal plan and the individual development and rebate agreements. The incremental taxes to be received by the City under Chapter 403.19 of the Code of Iowa from the developers will be rebated for periods ranging from five to ten years, beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The maximum amount to be rebated under the development and rebate agreements is the lesser of actual project costs paid by the developer or \$773,000. The agreements do not include provisions for payment of interest.

During the year ended June 30, 2007, the City rebated \$124,807 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, 2007 is \$484,170.

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, 2007, the City reimbursed developers \$250,000 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, 2007 is \$555,935.

An additional development agreement requires the City to reimburse future tapping fees as connections are made to the system for sanitary sewer extensions and sanitary sewer lift station costs paid by the developer. The maximum to be paid under this development agreement is the lesser of actual paid costs paid by the developer or \$434,402. The developer agreement is in effect until fully reimbursed. During the year ended June 30, 2007, the City reimbursed developers \$11,221 from sewer tapping fees. The outstanding principal balance on this agreement at June 30, 2007 is \$423,181.

(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. As of June 30, 2007, the outstanding loan balance is \$45,055.

(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 \$10,956,000. As of June 30, 2007, costs of approximately \$8,388,000 had been paid on the contracts. The remaining \$2,568,000 will be paid as work on these projects progresses.

(12) Deficit Balances

The Capital Projects Fund had a deficit balance of \$2,190,772 at June 30, 2007. The deficit balance was a result of costs incurred prior to availability of funds. The deficit balance will be eliminated through receipt of state grant funds, issuance of bonds and collections of charges for service.

(13) Subsequent Events

In July 2007, the City approved and authorized the sale and issuance of \$5,200,000 of general obligation corporate purpose bonds, Series 2007. \$4,500,000 is to be used for the construction of street, sewer and sanitary sewer improvements and \$700,000 is for the purpose of paying the cost of acquiring land for use as the site for a sports and recreation complex and for a cooperative project with the Dallas Center-Grimes Community School District.

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, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 2,853,663	-	2,853,663
Tax increment financing	761,226	-	761,226
Other city tax	112,067	-	112,067
Licenses and permits	425,331	-	425,331
Use of money and property	154,674	63	154,737
Intergovernmental	1,073,834	-	1,073,834
Charges for service	240,383	2,602,466	2,842,849
Special assessments	49,060	-	49,060
Miscellaneous	1,756,010	-	1,756,010
Total receipts	7,426,248	2,602,529	10,028,777
Disbursements:			
Public safety	824,398	-	824,398
Public works	767,595	-	767,595
Health and social services	6,067	-	6,067
Culture and recreation	480,494	-	480,494
Community and economic development	58,799	-	58,799
General government	486,222	-	486,222
Debt service	1,371,799	-	1,371,799
Capital projects	5,092,309	-	5,092,309
Business type activities	-	2,005,486	2,005,486
Total disbursements	9,087,683	2,005,486	11,093,169
Excess (deficiency) of receipts over (under) disbursements	(1,661,435)	597,043	(1,064,392)
Other financing sources (uses), net	280,000	(280,000)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,381,435)	317,043	(1,064,392)
Balances beginning of year	2,530,537	1,285,791	3,816,328
Balances end of year	\$ 1,149,102	1,602,834	2,751,936

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total Variance
2,829,130	2,821,130	32,533
717,687	717,687	43,539
130,793	130,793	(18,726)
354,925	385,725	39,606
45,450	59,900	94,837
577,235	541,335	532,499
2,917,500	2,957,301	(114,452)
200,000	200,000	(150,940)
25,350	26,750	1,729,260
7,798,070	7,840,621	2,188,156
1,365,500	1,030,240	205,842
938,114	1,181,715	414,120
48,000	6,067	-
606,283	550,663	70,169
97,500	97,500	38,701
534,800	530,800	44,578
1,329,926	1,365,645	(6,154)
125,000	6,376,500	1,284,191
2,020,633	2,140,633	135,147
7,065,756	13,279,763	2,186,594
732,314	(5,439,142)	4,374,750
-	7,411,402	(7,411,402)
732,314	1,972,260	(3,036,652)
4,008,168	4,008,168	(191,840)
4,740,482	5,980,428	(3,228,492)

City of Grimes

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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. 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 increased budgeted disbursements by \$7,034,396 and one budget amendment decreased budgeted disbursements by \$820,389. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amount budgeted in the debt service function.

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, 2007

	Employee Benefits	Emergency	Metro West Grant
Receipts:			
Property tax	\$ 303,197	61,875	-
Intergovernmental	-	-	9,100
Miscellaneous	-	-	-
Total receipts	303,197	61,875	9,100
Disbursements:			
Operating:			
Health and social services	-	-	6,067
Culture and recreation	-	-	-
Total disbursements	-	-	6,067
Excess of receipts over disbursements	303,197	61,875	3,033
Other financing uses:			
Operating transfers out	(266,149)	(120,000)	-
Net change in cash balances	37,048	(58,125)	3,033
Cash balances beginning of year	96,967	101,890	(3,033)
Cash balances end of year	\$ 134,015	43,765	-
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 134,015	43,765	-

See accompanying independent auditor's report.

Special Revenue				
Fire Department FEMA Grant	Park and Recreation	Library	Rolow Memorial	Total
-	-	-	-	365,072
-	-	9,170	-	18,270
-	-	6,468	-	6,468
-	-	15,638	-	389,810
-	-	-	-	6,067
-	-	4,943	-	4,943
-	-	4,943	-	11,010
-	-	10,695	-	378,800
-	-	-	-	(386,149)
-	-	10,695	-	(7,349)
3,172	13,145	53,167	1,833	267,141
3,172	13,145	63,862	1,833	259,792
3,172	13,145	63,862	1,833	259,792

City of Grimes
Schedule of Indebtedness
Year ended June 30, 2007

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	Redeemed During Year	Balance End of Year	Interest Paid
2,190,000	185,000	2,005,000	96,807
2,240,000	150,000	2,090,000	76,962
980,000	340,000	640,000	25,455
<u>\$ 5,410,000</u>	<u>675,000</u>	<u>4,735,000</u>	<u>199,224</u>
4,843,000	250,000	4,593,000	172,502
4,420,000	216,000	4,204,000	190,060
<u>\$ 9,263,000</u>	<u>466,000</u>	<u>8,797,000</u>	<u>362,562</u>
448,681	50,000	398,681	18,130
99,941	14,669	85,272	4,913
<u>\$ 548,622</u>	<u>64,669</u>	<u>483,953</u>	<u>23,043</u>
48,086	15,091	32,995	2,928
15,275	15,275	-	862
<u>\$ 63,361</u>	<u>30,366</u>	<u>32,995</u>	<u>3,790</u>

City of Grimes

Bond Maturities

June 30, 2007

General Obligation Bonds							
Year Ending June 30,	Corporate Purpose Issued Jan 1, 2002		Corporate Purpose Issued Mar 1, 2003		Refunding Issued May 29, 2003		Total
	Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	
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>\$ 2,005,000</u>		<u>\$ 2,090,000</u>		<u>\$ 640,000</u>	<u>4,735,000</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%	\$ 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>\$ 4,120,000</u>		<u>\$ 473,000</u>	<u>4,593,000</u>		<u>\$ 4,204,000</u>	<u>8,797,000</u>

Schedule 4

City of Grimes

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

For the Last Five Years

	2007	2006	2005	2004	2003
Receipts:					
Property tax	\$ 2,853,663	2,502,802	2,307,906	2,097,510	1,950,430
Tax increment financing	761,226	817,073	670,298	778,617	339,941
Other city tax	112,067	68,100	107,372	17,606	73,911
Licenses and permits	425,331	355,345	295,902	199,711	181,354
Use of money and property	154,674	101,908	123,906	87,329	51,408
Intergovernmental	1,073,834	890,894	1,378,470	566,563	572,297
Charges for service	240,383	414,290	426,201	182,481	118,126
Special assessments	49,060	137,137	437,247	-	-
Miscellaneous	1,756,010	1,428,522	2,669,863	31,724	278,697
Total	\$ 7,426,248	6,716,071	8,417,165	3,961,541	3,566,164
Disbursements:					
Operating:					
Public safety	\$ 824,398	1,139,269	1,430,441	671,961	566,187
Public works	767,595	684,261	771,074	680,222	873,301
Health and social services	6,067	33,583	39,000	48,000	42,250
Culture and recreation	480,494	542,363	411,536	354,637	388,090
Community and economic development	58,799	128,219	57,634	47,633	37,318
General government	486,222	499,030	445,296	383,215	338,916
Debt service	1,371,799	1,413,924	1,092,771	900,224	686,192
Capital projects	5,092,309	3,362,209	4,817,303	2,406,198	2,601,271
Total	\$ 9,087,683	7,802,858	9,065,055	5,492,090	5,533,525

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grimes, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 25, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Grimes' internal control over financial reporting. According, we do not express an opinion on the effectiveness of the City of Grimes' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Grimes' ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Grimes' financial statements that is more than inconsequential will not be prevented or detected by the City of Grimes' internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Grimes' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A), (B) and (C) are material weaknesses.

Compliance and Other Matters

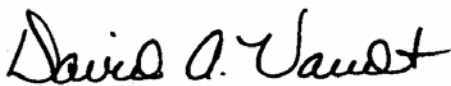
As part of obtaining reasonable assurance about whether the City of Grimes' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material 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, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Grimes' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Grimes' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of 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

October 25, 2007

City of Grimes
Schedule of Findings
Year ended June 30, 2007

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- (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 preparing bank account reconciliations, initiating disbursements, signing disbursements and depositing cash.

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.

Response – As the City continues to add additional personnel, we will concentrate on segregating duties as much as possible. We will provide better evidence of independent reviews by initialing and dating documents.

Conclusion – Response accepted.

- (B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits. Delinquent utility accounts to be written off were not presented to the City Council for approval. In addition, the rates charged for water meter rentals and late fee assessments were not in accordance with the City's Code of Ordinances.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections, and delinquencies for each billing period and to reconcile collections to deposits. The Council or Council-designated independent person should review the reconciliations and monitor delinquencies and approve any write offs. Also, the City should follow the rates for water meter rentals and late fees established in the Code of Ordinances.

Response – The City will comply with the recommendations listed above as well as performing a timely reconciliation process that accounts for all variations.

Conclusion – Response accepted.

- (C) Reconciliation of Building Permits – Collections for building permits were not reconciled throughout the year to amounts recorded in the financial records. Also, the numerical sequence of building permits was not accounted for.

Recommendation – Procedures should be established to reconcile building permit collections monthly to financial records. In addition, the numerical sequence of the building permits should be accounted for.

City of Grimes

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Response – The recommended procedures are already in place and monthly reconciliations are being completed.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Grimes
Schedule of Findings
Year ended June 30, 2007

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2007 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City will more closely monitor the budget to ensure all amendments are completed prior to expending over the legal limits for each program.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- (4) Business Transactions – No 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.

Although minutes of Council proceedings were published, they did not include total disbursements from each fund or a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The minutes should include total disbursements from each fund and a summary of all receipts in accordance with Chapter 372.13(6) of the Code of Iowa.

Response – A summary of all receipts and disbursements will be included in the minutes for each month.

Conclusion – Response accepted.

- (7) Deposits and Investments – The City renewed a certificate of deposit (CD) at a rate less than the minimum approved rate.

Recommendation – The City should renew CD’s at no less than the minimum approved rate.

Response – The interest rates for CD renewals will be monitored to ensure they are at the minimum rate.

Conclusion – Response acknowledged. The City should seek reimbursement of the additional interest due on the certificate of deposit.

City of Grimes

Schedule of Findings

Year ended June 30, 2007

- (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 at year end 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 – Monthly transfers shall be made from the water and sewer operating accounts as required.

Conclusion – Response accepted.

- (9) Financial Condition – The Capital Projects Fund had a deficit balance of \$2,190,772 at June 30, 2007.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – This deficit was due to the timing of the \$5.2 million bond sale. This will be more closely monitored in the future.

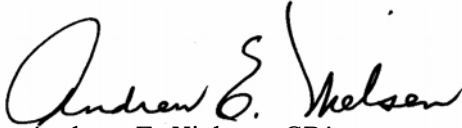
Conclusion – Response accepted.

City of Grimes

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Lesley R. Geary, CPA, Senior Auditor II
Melissa J. Knoll-Speer, Staff Auditor
Lori M. Dinville, Assistant Auditor



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