



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

Richard D. Johnson, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Warren G. Jenkins, CPA
Chief Deputy Auditor of State

NEWS RELEASE

FOR RELEASE October 18, 2002

Contact: Andy Nielsen
515/281-5515

Auditor of State Richard Johnson today released an audit report on the City of Grimes, Iowa.

Johnson reported that the City's receipts totaled \$4,759,383 for the year ended June 30, 2002, a 12 percent increase from 2001. The receipts included \$1,570,513 in property tax, \$345,288 from tax increment financing collections, \$512,080 from the state and \$54,562 in interest on investments. The significant increase in receipts is due to increases in property tax collections, charges for service and a sales tax refund for a sewer capital improvement project.

Disbursements for the year totaled \$9,282,983, a 34 percent decrease from 2001, and included \$392,843 for community protection, \$410,087 for human development, \$8,129,792 for home and community environment, and \$350,261 for policy and administration. The significant decrease in disbursements was due primarily to the completion of a sewer capital improvement project in the prior year.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.

###

CITY OF GRIMES
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2002

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5
Financial Statements:	<u>Exhibit</u>	
Combined Statement of Cash Transactions – All Fund Types	A	8-9
Comparison of Receipts, Disbursements and Changes in Balances – Actual to Budget	B	10-11
Statement of Indebtedness	C	12-13
Notes to Financial Statements		14-20
Supplemental Information:	<u>Schedule</u>	
Combining and Individual Schedules of Cash Transactions:		
General Fund	1	22-29
Special Revenue Funds	2	30-31
Debt Service Fund	3	32-33
Capital Projects Funds	4	34-35
Enterprise Funds	5	36-39
Trust Funds	6	40-41
Bond Maturities	7	42-43
Comparison of Tax and Intergovernmental Receipts	8	44
Schedule of Expenditures of Federal Awards	9	45
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		47-48
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance		49-50
Schedule of Findings and Questioned Costs		51-56
Staff		57

City of Grimes

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2002)		
Brad Long	Mayor	Jan 2002
Steve Fairbanks	Mayor Pro tem	Jan 2004
Michael Grove	Council Member	Jan 2002
Mark McMurphy	Council Member	Jan 2002
John Henricksen	Council Member	Jan 2002
Ron Rosenberg	Council Member	Jan 2004
Kelley Brown	Administrator	Indefinite
Susan Lemon	Clerk	Indefinite
Barbara Alexander	Treasurer	Indefinite
Tom Henderson	Attorney	Indefinite
(After January 2002)		
Tom Armstrong	Mayor	Jan 2006
Steve Fairbanks	Mayor Pro tem	Jan 2004
Ron Rosenberg	Council Member	Jan 2004
Michael Grove	Council Member	Jan 2006
Ron Long	Council Member	Jan 2006
Mike Martin	Council Member	Jan 2006
Kelley Brown	Administrator	Indefinite
Susan Lemon	Clerk	Indefinite
Barbara Alexander	Treasurer	Indefinite
Tom Henderson	Attorney	Indefinite

City of Grimes



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

Richard D. Johnson, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Warren G. Jenkins, CPA
Chief Deputy Auditor of State

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of Grimes, Iowa, as of and for the year ended June 30, 2002. These financial statements are the responsibility of the City of Grimes' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 that our audit provides a reasonable basis for our opinion.

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 aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Grimes as of and for the year ended June 30, 2002, and its indebtedness at June 30, 2002, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated August 29, 2002 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 grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2001 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

RICHARD D. JOHNSON, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 29, 2002

City of Grimes

Financial Statements

City of Grimes
 Combined Statement of Cash Transactions
 All Fund Types
 Year ended June 30, 2002

	Governmental Fund		
	General	Special Revenue	Debt Service
Receipts:			
Property tax	\$ 1,103,807	62,361	404,345
Tax increment financing collections	-	345,288	-
Other city tax	70,781	-	-
Licenses and permits	120,847	-	-
Use of money and property	49,070	8,729	63
Intergovernmental	87,988	447,338	-
Charges for service	115,951	-	-
Miscellaneous	22,645	-	-
Total receipts	1,571,089	863,716	404,408
Disbursements:			
Community Protection Program	348,492	-	44,351
Human Development Program	280,306	35,750	76,285
Home and Community Environment Program	616,178	307,371	707,190
Policy and Administration Program	350,261	-	-
Total disbursements	1,595,237	343,121	827,826
Excess (deficiency) of receipts over (under) disbursements	(24,148)	520,595	(423,418)
Other financing sources (uses):			
Proceeds from revenue bonds	-	-	-
Proceeds from general obligation bonds (net of \$34,401 discount)	-	-	-
Operating transfers in	61,512	-	264,541
Operating transfers out	(46,072)	(505,924)	(215,929)
Total other financing sources (uses)	15,440	(505,924)	48,612
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(8,708)	14,671	(374,806)
Balance beginning of year	795,341	764,911	396,951
Balance end of year	\$ 786,633	779,582	22,145

See notes to financial statements.

Types Capital Projects	Proprietary Fund Types Enterprise	Fiduciary Fund Type Trust	Total (Memorandum Only)
-	-	-	1,570,513
-	-	-	345,288
-	-	-	70,781
-	-	-	120,847
-	-	-	57,862
-	-	7,729	543,055
-	1,690,902	-	1,806,853
146,639	62,370	12,530	244,184
146,639	1,753,272	20,259	4,759,383
-	-	-	392,843
-	-	17,746	410,087
4,844,752	1,654,301	-	8,129,792
-	-	-	350,261
4,844,752	1,654,301	17,746	9,282,983
(4,698,113)	98,971	2,513	(4,523,600)
3,043,860	-	-	3,043,860
3,165,599	-	-	3,165,599
721,591	938,129	-	1,985,773
-	(1,217,848)	-	(1,985,773)
6,931,050	(279,719)	-	6,209,459
2,232,937	(180,748)	2,513	1,685,859
(497,668)	1,094,454	35,100	2,589,089
1,735,269	913,706	37,613	4,274,948

City of Grimes

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget

Year ended June 30, 2002

	Actual	Amended Budget
Receipts:		
Property tax	\$ 1,570,513	1,555,151
Tax increment financing collections	345,288	350,164
Other city tax	70,781	120,974
Licenses and permits	120,847	115,900
Use of money and property	57,862	61,300
Intergovernmental	543,055	505,655
Charges for service	1,806,853	1,851,800
Miscellaneous	244,184	93,750
Total receipts	4,759,383	4,654,694
Disbursements:		
Community Protection Program	392,843	445,770
Human Development Program	410,087	773,089
Home and Community Environment Program	8,129,792	9,461,477
Policy and Administration Program	350,261	346,135
Total disbursements	9,282,983	11,026,471
Deficiency of receipts under disbursements	(4,523,600)	(6,371,777)
Other financing sources, net	6,209,459	6,781,599
Excess of receipts and other financing sources over disbursements and other financing uses	1,685,859	409,822
Balance beginning of year	2,589,089	2,589,089
Balance end of year	\$ 4,274,948	2,998,911

See notes to financial statements.

Variance Favorable (Unfavorable)	Actual as % of Amended Budget
15,362	101%
(4,876)	99%
(50,193)	59%
4,947	104%
(3,438)	94%
37,400	107%
(44,947)	98%
150,434	260%
104,689	102%
52,927	88%
363,002	53%
1,331,685	86%
(4,126)	101%
1,743,488	84%

City of Grimes
Statement of Indebtedness
Year ended June 30, 2002

Obligation	Date of Issue	Interest Rates
General obligation bonds:		
Water	Jul 1, 1989	6.55-6.75%
Sewer improvement	May 1, 1991	6.25-7.00
Library	Jun 1, 1993	4.00-6.00
Essential corporate purpose	Oct 1, 1994	4.75-6.05
Corporate purpose	Jan 1, 1999	3.40-4.00
Corporate purpose	Jan 1, 2002	4.00-4.70
Total		
Revenue bonds:		
Water	Dec 19, 2000	3.53-3.84%
Sewer	Dec 19, 2000	4.30
Total		
Lease-purchase agreement:		
Fire truck	Dec 15, 2000	6.09%

See notes to financial statements.

	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$	400,000	45,000	-	45,000	-	3,038
	410,000	190,000	-	35,000	155,000	13,169
	550,000	315,000	-	40,000	275,000	14,920
	1,675,000	1,205,000	-	85,000	1,120,000	69,560
	900,000	650,000	-	80,000	570,000	25,325
	3,200,000	-	3,200,000	340,000	2,860,000	57,170
		\$ 2,405,000	3,200,000	625,000	4,980,000	183,182
\$	5,976,000	2,581,669	3,007,860	210,000	5,379,529	162,592
	5,372,000	5,332,637	36,000	175,000	5,193,637	230,623
		\$ 7,914,306	3,043,860	385,000	10,573,166	393,215
\$	111,500	111,500	-	11,229	100,271	6,791

City of Grimes

Notes to Financial Statements

June 30, 2002

(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, culture, recreation, public improvements and general administrative services.

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 of Grimes has no component units required to be reported in accordance with the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also 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. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and fund balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are 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 that are not paid through other funds.

Special Revenue Funds – The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

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

Capital Projects Funds – The Capital Projects Funds are utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

Proprietary Fund

Enterprise Funds – The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Fiduciary Fund

Trust Funds – The Trust Funds are used to account for monies and properties received and held by the City in a trustee capacity. These include expendable trust funds.

C. 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.

D. Budgets and Budgetary Accounting

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 four major classes of disbursements, known as programs, not by fund. These four programs are community protection, human development, home and community environment and policy and administration.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2002 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$7,583 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Long-Term Debt

Bonds Payable

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

Year Ending June 30,	General Obligation Bonds		Total
	Principal	Interest	
2003	\$ 415,000	234,977	649,977
2004	430,000	215,954	645,954
2005	455,000	195,577	650,577
2006	465,000	174,443	639,443
2007	500,000	152,206	652,206
2008	520,000	128,735	648,735
2009	380,000	104,516	484,516
2010	400,000	85,127	485,127
2011	210,000	64,515	274,515
2012	220,000	55,275	275,275
2013	230,000	45,595	275,595
2014	240,000	35,245	275,245
2015	250,000	24,205	274,205
2016	265,000	12,455	277,455
Total	\$ 4,980,000	1,528,825	6,508,825

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. includes the following provisions:

- (1) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holder holds 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 produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

The City made sufficient transfers to the sewer revenue bond sinking account during the year ended June 30, 2002. However, the City did not provide for the collection of sewer rates sufficient to provide a balance of net revenues equal to at least 110% of the principal and interest due during the year.

During the two years ended June 30, 2002, the City requested \$10,958,166 of the \$11,348,000 authorized. Wells Fargo Iowa, N.A., has the remaining \$389,834 held in trust which the City will request as the project progresses. Since the City is still drawing funds on the water and sewer revenue bonds with a June 30, 2002 balance of \$10,573,166, a formal repayment schedule has not yet been adopted for that debt.

Lease-Purchase Agreement

The City has entered into a lease-purchase agreement to lease a fire truck. 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, 2002:

Year Ending June 30,	Ambulance
2003	\$ 18,020
2004	18,020
2005	18,020
2006	18,020
2007	18,020
Thereafter	<u>36,036</u>
Total minimum lease payments	126,136
Less amount representing interest at 6.09%	<u>(25,865)</u>
Present value of net minimum lease payments	<u>\$ 100,271</u>

Payments under the agreement for the year ended June 30, 2002 totaled \$18,020.

(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.

Plan members are required to contribute 3.7% of their annual salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2002, 2001 and 2000 were \$24,811, \$19,482, and \$18,785, 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 hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory termination payments payable to employees at June 30, 2002, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 18,100
Compensatory time	<u>5,900</u>
Total	<u>\$ 24,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2002.

(6) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 384.12 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 400 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 annual contributions to the Pool for the year ended June 30, 2002 were \$65,202.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also 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 that 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. The City does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2002, no liability has been recorded in the City's financial statements. As of June 30, 2002, settled claims have not exceeded the risk pool or reinsurance company 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.

(7) Economic Development Loan Agreement

In a prior year, the City loaned Collective Investment Management, LTD of West Des Moines, Iowa \$50,000 for infrastructure improvements. Interest on the loan is 3% per year and is payable each year. Principal is due in full on January 27, 2005.

(8) Commitments

During the year ended June 30, 2002, the City approved a resolution providing for a \$2,650,000 loan agreement to fund various capital projects. Proceeds from this loan agreement will be received in fiscal year 2003 when the construction progresses.

(9) Subsequent Events

In July, 2002, the City entered into a contract totaling \$843,396 for street projects.

In August, 2002, the City Council approved a resolution authorizing a \$809,877 Revitalize Iowa's Sound Economy (RISE) grant. This grant will be used for street construction projects.

(10) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the program level. During the year ended June 30, 2002, disbursements in the Policy and Administration Program exceeded the amount budgeted.

Supplemental Information

City of Grimes
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	General	Insurance
Receipts:		
Property tax	\$ 1,047,190	56,617
Other city tax:		
Mobile home tax	15,498	-
Utility tax replacement excise tax	51,358	-
Cable franchise fees	3,925	-
	70,781	-
Licenses and permits:		
Building	102,126	-
Other	6,607	-
	108,733	-
Use of money and property:		
Interest on investments	44,048	-
Rent	3,300	-
	47,348	-
Intergovernmental:		
State allocation	52,116	-
Bank franchise tax	4,897	-
County library contribution	17,026	-
Fire agreements	-	-
	74,039	-
Charges for service:		
Library fees	6,453	-
Ambulance charges	29,389	-
Building development fees	80,109	-
	115,951	-

Cemetery	Rescue Capital Improvement	Park Capital Improvement	Fire Capital Improvement	Total
-	-	-	-	1,103,807
-	-	-	-	15,498
-	-	-	-	51,358
-	-	-	-	3,925
-	-	-	-	70,781
-	-	12,114	-	114,240
-	-	-	-	6,607
-	-	12,114	-	120,847
1,722	-	-	-	45,770
-	-	-	-	3,300
1,722	-	-	-	49,070
-	-	-	-	52,116
-	-	-	-	4,897
-	-	-	-	17,026
-	-	-	13,949	13,949
-	-	-	13,949	87,988
-	-	-	-	6,453
-	-	-	-	29,389
-	-	-	-	80,109
-	-	-	-	115,951

City of Grimes
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	General	Insurance
Receipts (continued):		
Miscellaneous:		
Lot sales	-	-
Sales tax refunds	4,109	-
Fines and penalties	345	-
Miscellaneous	14,161	-
	18,615	-
Total receipts	1,482,657	56,617
Disbursements:		
Community Protection Program:		
Police:		
Personal services	5,558	-
Contractual services	149,731	-
	155,289	-
Street lighting	45,538	-
Fire and rescue:		
Personal services	33,105	-
Contractual services	63,303	-
Commodities	51,257	-
	147,665	-
	348,492	-
Human Development Program:		
Library:		
Personal services	126,772	-
Contractual services	19,086	-
Commodities	40,595	-
	186,453	-
Park:		
Personal services	18,668	-
Contractual services	73,539	-
Capital outlay	1,646	-
	93,853	-
	280,306	-

Cemetery	Rescue Capital Improvement	Park Capital Improvement	Fire Capital Improvement	Total
4,030	-	-	-	4,030
-	-	-	-	4,109
-	-	-	-	345
-	-	-	-	14,161
4,030	-	-	-	22,645
5,752	-	12,114	13,949	1,571,089
-	-	-	-	5,558
-	-	-	-	149,731
-	-	-	-	155,289
-	-	-	-	45,538
-	-	-	-	33,105
-	-	-	-	63,303
-	-	-	-	51,257
-	-	-	-	147,665
-	-	-	-	348,492
-	-	-	-	126,772
-	-	-	-	19,086
-	-	-	-	40,595
-	-	-	-	186,453
-	-	-	-	18,668
-	-	-	-	73,539
-	-	-	-	1,646
-	-	-	-	93,853
-	-	-	-	280,306

City of Grimes
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	General	Insurance
Disbursements (continued):		
Home and Community Environment Program:		
Streets:		
Personal services	240,956	-
Contractual services	59,332	-
Commodities	53,411	-
Capital outlay	13,435	-
	367,134	-
Cemetery:		
Personal services	3,786	-
Contractual services	10,312	-
	14,098	-
Building department:		
Personal services	50,950	-
Contractual services	181,903	-
Commodities	2,093	-
	234,946	-
	616,178	-
Policy and Administration Program:		
City Hall:		
Personal services	131,808	-
Contractual services	80,364	-
Commodities	29,789	-
	241,961	-
Legal and professional:		
Contractual services	53,835	-
General administration:		
Contractual services:		
Insurance	-	54,465
	295,796	54,465
Total disbursements	1,540,772	54,465
Excess (deficiency) of receipts over (under) disbursements	(58,115)	2,152

Cemetery	Rescue Capital Improvement	Park Capital Improvement	Fire Capital Improvement	Total
-	-	-	-	240,956
-	-	-	-	59,332
-	-	-	-	53,411
-	-	-	-	13,435
-	-	-	-	367,134
-	-	-	-	3,786
-	-	-	-	10,312
-	-	-	-	14,098
-	-	-	-	50,950
-	-	-	-	181,903
-	-	-	-	2,093
-	-	-	-	234,946
-	-	-	-	616,178
-	-	-	-	131,808
-	-	-	-	80,364
-	-	-	-	29,789
-	-	-	-	241,961
-	-	-	-	53,835
-	-	-	-	54,465
-	-	-	-	350,261
-	-	-	-	1,595,237
5,752	-	12,114	13,949	(24,148)

City of Grimes
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	General	Insurance
Other financing sources (uses):		
Operating transfers in (out):		
General:		
General	-	7,552
Insurance	(7,552)	-
Fire Capital Improvement	(12,500)	-
Special Revenue:		
Employee Benefits	41,460	-
Debt Service	(8,000)	-
Total other financing sources (uses)	13,408	7,552
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(44,707)	9,704
Balance beginning of year	624,754	(7,552)
Balance end of year	\$ 580,047	2,152

See accompanying independent auditor's report.

Cemetery	Rescue Capital Improvement	Park Capital Improvement	Fire Capital Improvement	Total
-	-	-	12,500	20,052
-	-	-	-	(7,552)
-	-	-	-	(12,500)
-	-	-	-	41,460
-	-	-	(18,020)	(26,020)
-	-	-	(5,520)	15,440
5,752	-	12,114	8,429	(8,708)
85,278	7,880	63,518	21,463	795,341
91,030	7,880	75,632	29,892	786,633

City of Grimes
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2002

	Road Use Tax	Tax Increment Financing
Receipts:		
Property tax	\$ -	-
Tax increment financing collections	-	345,288
Use of money and property:		
Interest on investments	-	-
Intergovernmental:		
Road use tax allocation	408,338	-
Governor's Alliance on Substance Abuse grant	-	-
	408,338	-
Total receipts	408,338	345,288
Disbursements:		
Human Development Program:		
Contractual services	-	-
Home and Community Environment Program:		
Contractual services	307,371	-
Total disbursements	307,371	-
Excess of receipts over disbursements	100,967	345,288
Other financing uses:		
Operating transfers out:		
General:		
General	-	-
Debt Service	-	(209,464)
Capital Projects:		
Sewer Capital Improvement	-	-
Sports Complex	-	(190,000)
Total other financing uses	-	(399,464)
Excess (deficiency) of receipts over (under) disbursements and other financing uses	100,967	(54,176)
Balance beginning of year	395,561	54,270
Balance end of year	\$ 496,528	94

See accompanying independent auditor's report.

Employee Benefits	Emergency	Economic Development Revolving Loans	Metro West Grant	Total
41,803	20,558	-	-	62,361
-	-	-	-	345,288
-	-	8,729	-	8,729
-	-	-	-	408,338
-	-	-	39,000	39,000
-	-	-	39,000	447,338
41,803	20,558	8,729	39,000	863,716
-	-	-	35,750	35,750
-	-	-	-	307,371
-	-	-	35,750	343,121
41,803	20,558	8,729	3,250	520,595
(41,460)	-	-	-	(41,460)
-	-	-	-	(209,464)
-	(65,000)	-	-	(65,000)
-	-	-	-	(190,000)
(41,460)	(65,000)	-	-	(505,924)
343	(44,442)	8,729	3,250	14,671
43,511	86,911	187,908	(3,250)	764,911
43,854	42,469	196,637	-	779,582

Schedule 3

City of Grimes
Schedule of Cash Transactions
Debt Service Fund
Year ended June 30, 2002

Receipts:	
Property tax	\$ 404,345
Use of money and property:	
Interest on investments	63
Total receipts	<u>404,408</u>
Disbursements:	
Community Protection Program:	
Debt service:	
Principal redemption	31,229
Interest payments	13,122
	<u>44,351</u>
Human Development Program:	
Debt service:	
Principal redemption	56,000
Interest payments	19,985
Fees	300
	<u>76,285</u>
Home and Community Environment Program:	
Debt service:	
Principal redemption	549,000
Interest payments	156,866
Fees	1,324
	<u>707,190</u>
Total disbursements	<u>827,826</u>
Deficiency of receipts under disbursements	<u>(423,418)</u>

City of Grimes
 Schedule of Cash Transactions
 Debt Service Fund
 Year ended June 30, 2002

Other financing sources (uses):	
Operating transfers in (out):	
General:	
General	8,000
Fire Capital Improvements	18,020
Special Revenue:	
Tax Increment Financing	209,464
Capital Projects:	
Sewer Capital Improvement	(82,556)
Water Capital Improvement	(29,732)
Enterprise:	
Water Operations	(79,689)
Water Revenue Bond Sinking	29,057
Sewer Operations	(23,952)
Total other financing sources (uses)	<u>48,612</u>
Deficiency of receipts and other financing sources under disbursements and other financing uses	(374,806)
Balance beginning of year	<u>396,951</u>
Balance end of year	<u><u>\$ 22,145</u></u>

See accompanying independent auditor's report.

City of Grimes
Combining Schedule of Cash Transactions
Capital Projects Funds
Year ended June 30, 2002

	Sewer Capital Improvement	Northwest Utility Extension
Receipts:		
Miscellaneous:		
Sales tax refund	\$ 116,129	-
Extension assessments	-	-
Donations	-	-
Total receipts	<u>116,129</u>	<u>-</u>
Disbursements:		
Home and Community Environment Program:		
Capital outlay	<u>845,451</u>	<u>864,679</u>
Deficiency of receipts under disbursements	<u>(729,322)</u>	<u>(864,679)</u>
Other financing sources:		
Proceeds from revenue bonds	36,000	-
Proceeds from general obligation bonds (net of \$34,401 discount)	846,435	619,164
Operating transfers in:		
Special Revenue:		
Tax Increment Financing	-	-
Emergency	65,000	-
Debt Service	82,556	-
Enterprise:		
Water Operations	-	354,303
Total other financing sources	<u>1,029,991</u>	<u>973,467</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	300,669	108,788
Balance beginning of year	<u>(154,728)</u>	<u>(93,467)</u>
Balance end of year	<u>\$ 145,941</u>	<u>15,321</u>

See accompanying independent auditor's report.

Water Capital Improvement	Sports Complex	Capitol City	Total
-	1,580	-	117,709
27,430	-	-	27,430
-	1,500	-	1,500
27,430	3,080	-	146,639
2,681,177	344,609	108,836	4,844,752
(2,653,747)	(341,529)	(108,836)	(4,698,113)
3,007,860	-	-	3,043,860
-	-	1,700,000	3,165,599
-	190,000	-	190,000
-	-	-	65,000
29,732	-	-	112,288
-	-	-	354,303
3,037,592	190,000	1,700,000	6,931,050
383,845	(151,529)	1,591,164	2,232,937
(382,920)	151,547	(18,100)	(497,668)
925	18	1,573,064	1,735,269

City of Grimes
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2002

	Water Operations	Water Tapping
Receipts:		
Charges for service:		
Sale of water	\$ 817,632	-
Meter rental fees	30,582	-
Building usage fees	3,900	-
Tapping fees	-	8,390
Sewer rental fees	-	-
Solid waste fees	-	-
	<u>852,114</u>	<u>8,390</u>
Miscellaneous:		
Sales tax collected	46,656	-
Miscellaneous	10,643	-
	<u>57,299</u>	<u>-</u>
Total receipts	<u>909,413</u>	<u>8,390</u>
Disbursements:		
Home and Community Environment Program:		
Personal services	21,532	-
Contractual services	393,672	-
Commodities	21,932	-
Debt service:		
Principal redemption	-	-
Interest payments	-	-
Other	-	-
Total disbursements	<u>437,136</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>472,277</u>	<u>8,390</u>

Water Revenue Bond Sinking	Sewer Operations	Sewer Tapping	Sewer Revenue Bond Sinking	Solid Waste	Meter Deposits	Total
-	-	-	-	-	-	817,632
-	-	-	-	-	-	30,582
-	-	-	-	-	-	3,900
-	-	40,127	-	-	-	48,517
-	656,191	-	-	-	-	656,191
-	-	-	-	134,080	-	134,080
-	656,191	40,127	-	134,080	-	1,690,902
-	-	-	-	-	-	46,656
-	3,971	-	-	-	1,100	15,714
-	3,971	-	-	-	1,100	62,370
-	660,162	40,127	-	134,080	1,100	1,753,272
-	11,258	-	-	-	-	32,790
-	273,985	-	-	138,060	-	805,717
-	9,313	-	-	-	659	31,904
210,000	-	-	175,000	-	-	385,000
162,592	-	-	230,623	-	-	393,215
2,989	-	-	2,686	-	-	5,675
375,581	294,556	-	408,309	138,060	659	1,654,301
(375,581)	365,606	40,127	(408,309)	(3,980)	441	98,971

City of Grimes
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2002

	Water Operations	Water Tapping
Other financing sources (uses):		
Operating transfers in (out):		
Debt Service	79,689	-
Capital Projects:		
Northwest Utility Extension	(354,303)	-
Enterprise:		
Water Operations	-	-
Water Revenue Bond Sinking	(425,855)	-
Sewer Operations	-	-
Sewer Revenue Bond Sinking	-	-
Total other financing sources (uses)	(700,469)	-
 Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	 (228,192)	 8,390
 Balance beginning of year	 560,982	 40,709
Balance end of year	\$ 332,790	49,099

See accompanying independent auditor's report.

Water Revenue Bond Sinking	Sewer Operations	Sewer Tapping	Sewer Revenue Bond Sinking	Solid Waste	Meter Deposits	Total
(29,057)	23,952	-	-	-	-	74,584
-	-	-	-	-	-	(354,303)
425,855	-	-	-	-	-	425,855
-	-	-	-	-	-	(425,855)
-	-	-	408,633	-	-	408,633
-	(408,633)	-	-	-	-	(408,633)
396,798	(384,681)	-	408,633	-	-	(279,719)
21,217	(19,075)	40,127	324	(3,980)	441	(180,748)
28,818	389,438	54,485	-	6,847	13,175	1,094,454
50,035	370,363	94,612	324	2,867	13,616	913,706

City of Grimes
 Combining Schedule of Cash Transactions
 Trust Funds
 Year ended June 30, 2002

	Park and Recreation
Receipts:	
Intergovernmental:	
Library open access	\$ -
Enrich Iowa program	-
	-
Miscellaneous:	
Miscellaneous	1,533
Total receipts	1,533
Disbursements:	
Human Development Program:	
Commodities	1,525
	1,525
Excess (deficiency) of receipts over (under) disbursements	8
Balance beginning of year	13,017
Balance end of year	\$ 13,025

See accompanying independent auditor's report.

Expendable Trusts			
Library Books	Library Furnishings	Rolow Memorial	Total
-	4,916	-	4,916
2,813	-	-	2,813
2,813	4,916	-	7,729
3,848	372	6,777	12,530
6,661	5,288	6,777	20,259
9,977	6,244	-	17,746
(3,316)	(956)	6,777	2,513
4,333	9,686	8,064	35,100
1,017	8,730	14,841	37,613

City of Grimes
 Bond Maturities
 June 30, 2002

Year Ending June 30,	General Obligation Bonds					
	Sewer Improvement		Library		Essential Corporate Purpose	
	Issued May 1, 1991		Issued Jun 1, 1993		Issued Oct 1, 1994	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2003	6.875%	\$ 35,000	4.75%	\$ 40,000	5.40%	\$ 95,000
2004	7.000	35,000	4.90	40,000	5.50	100,000
2005	7.000	40,000	5.00	45,000	5.65	105,000
2006	7.000	45,000	5.00	45,000	5.75	105,000
2007		-	5.00	50,000	5.80	165,000
2008		-	4.00	55,000	5.90	170,000
2009		-		-	6.00	185,000
2010		-		-	6.05	195,000
2011		-		-		-
2012		-		-		-
2013		-		-		-
2014		-		-		-
2015		-		-		-
2016		-		-		-
Total		<u>\$ 155,000</u>		<u>\$ 275,000</u>		<u>\$ 1,120,000</u>

See accompanying independent auditor's report.

Corporate Purpose		Corporate Purpose		Total
Issued Jan 1, 1999		Issued Jan 1, 2002		
Interest Rates	Amount	Interest Rates	Amount	
3.75%	\$ 85,000	4.00%	\$ 160,000	\$ 415,000
3.85	90,000	4.00	165,000	430,000
3.95	95,000	4.00	170,000	455,000
4.00	95,000	4.00	175,000	465,000
4.00	100,000	4.00	185,000	500,000
4.00	105,000	4.10	190,000	520,000
	-	4.25	195,000	380,000
	-	4.30	205,000	400,000
	-	4.40	210,000	210,000
	-	4.40	220,000	220,000
	-	4.50	230,000	230,000
	-	4.60	240,000	240,000
	-	4.70	250,000	250,000
	-	4.70	265,000	265,000
	<u>\$ 570,000</u>		<u>\$ 2,860,000</u>	<u>\$ 4,980,000</u>

City of Grimes

Comparison of Tax and Intergovernmental Receipts

	Years ended June 30,			
	2002	2001	2000	1999
Property tax	\$1,570,513	1,366,003	1,274,145	1,265,126
Tax increment financing collections	345,288	321,986	373,125	298,401
Other City tax:				
Mobile home	15,498	13,829	13,129	13,889
Utility tax replacement excise tax	51,358	47,253	-	-
Cable franchise fees	3,925	3,594	3,236	2,724
	70,781	64,676	16,365	16,613
Intergovernmental:				
Road use tax allocation	408,338	352,196	338,817	320,389
State allocation	52,116	47,077	47,218	47,189
Bank franchise tax	4,897	4,250	4,588	3,303
State disaster assistance program	-	-	-	2,361
Governor's Alliance on Substance Abuse grant	39,000	35,750	16,250	-
Fire agreements	13,949	26,863	12,545	16,538
Miscellaneous	24,755	20,288	22,613	36,521
	543,055	486,424	442,031	426,301
Total	\$2,529,637	2,239,089	2,105,666	2,006,441

See accompanying independent auditor's report.

City of Grimes
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2002

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expendi- tures
Indirect:			
U.S. Department of Justice			
Iowa Department of Public Safety:			
Governor's Alliance on Substance Abuse:			
Byrne Formula Grant Program	16.579	#00D-1397	\$ 35,750
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for Drinking Water			
State Revolving Fund	66.468	FS-77-98-DWSRF-031	<u>2,446,789</u>
Total			<u><u>\$ 2,482,539</u></u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Grimes and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

See accompanying independent auditor's report.

City of Grimes



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

Richard D. Johnson, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Warren G. Jenkins, CPA
Chief Deputy Auditor of State

**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Grimes, Iowa, as of and for the year ended June 30, 2002, and have issued our report thereon dated August 29, 2002. Our report expressed an unqualified opinion 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, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2002 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. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

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

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

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.

RICHARD D. JOHNSON, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 29, 2002



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

Richard D. Johnson, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Warren G. Jenkins, CPA
Chief Deputy Auditor of State

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance**

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Grimes, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2002. The City of Grimes' major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Grimes' management. Our responsibility is to express an opinion on the City of Grimes' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Grimes' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Grimes' compliance with those requirements.

In our opinion, the City of Grimes complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the City of Grimes is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Grimes' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

RICHARD D. JOHNSON, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 29, 2002

City of Grimes

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements which 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.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, which are not considered material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were identified.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.468 - Capitalization Grants for Drinking Water State Revolving Fund.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Grimes did not qualify as a low-risk auditee.

City of Grimes

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-02 Disbursements - One check for of \$24,321 was written and held at year-end.

Recommendation - Checks should not be written and held since this can weaken the control that the Council has over disbursements.

Response - It is not the intent of the City to weaken the control that Council has over disbursement. Therefore, checks will not be written and held at year-end.

Conclusion - Response accepted.

II-B-02 Information Systems - During our review of internal control, the existing control activities in the City's computer-based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City's computer-based systems were noted:

The City does not have written policies for:

- Requiring password changes every 60 to 90 days and prohibiting the use of the same password repeatedly.
- Password privacy and confidentiality.
- Requiring a rotation of backup tapes to ensure current data and programs are always maintained off-site.

Recommendation - The City should develop written policies addressing the above items in order to improve the City's control over computer-based systems.

Response - The City will develop and implement policies governing password changes, the importance of privacy and confidentiality of passwords, and the rotation of backup tapes to ensure date and programs are always maintained off-site.

Conclusion - Response accepted.

II-C-02 Receipts - Although sequentially numbered building permits were issued, they were not pre-numbered by the printer.

Recommendation - Pre-numbered permits should be issued to provide additional control over the proper collection and recording of all money.

City of Grimes

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Response - The City will obtain pre-numbered building permits to provide additional control over the proper collection and recording of all money obtained from permits.

Conclusion - Response accepted.

City of Grimes

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over major programs were identified.

City of Grimes
Schedule of Findings
Year ended June 30, 2002

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-02 Official Depositories – A resolution naming official depositories has been adopted by the Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2002.

IV-B-02 Certified Budget – Disbursements during the year ended June 30, 2002, exceeded the amount budgeted in the Policy and Administration program. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

IV-C-02 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-D-02 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-02 Business Transactions – No transactions between the City and City officials and employees were noted.

IV-F-02 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 that the coverage is adequate for current operations.

IV-G-02 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-H-02 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-I-02 Water Revenue Bonds – The City has complied with the provisions of the water revenue bond resolution.

IV-J-02 Sewer Revenue Bonds – The sewer revenue bond resolution states that the City will provide for the collection of rates to produce gross revenues at least sufficient to pay the expenses of operations and maintenance of the utility and to have a balance of net revenues equal to at least 110% of the principal and interest due on the bonds each fiscal year. The City has not complied with this provision.

City of Grimes

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Recommendation - The City should consult bond legal counsel regarding compliance with the bond provisions and investigate alternatives to adequately fund the sewer utility fund.

Response - The City will consult legal counsel regarding compliance with the bond provisions and investigate alternatives to adequately fund the sewer utility fund.

Conclusion - Response accepted.

City of Grimes

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Ernest H. Ruben, Jr., CPA, Senior Auditor II
Kip M. Druecker, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State