



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

March 27, 2018

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

The City's receipts totaled \$33,300,834 for the year ended June 30, 2017, a 39.2% increase over the prior year. The receipts included \$7,655,030 in property tax, \$1,797,621 from tax increment financing, \$248,426 from commercial/industrial tax replacement, \$7,184,575 from charges for service, \$1,636,031 from operating grants, contributions and restricted interest, \$6,142,577 from capital grants, contributions and restricted interest, \$8,608,612 of general obligation bond proceeds and \$27,962 from unrestricted interest on investments.

Disbursements for the year ended June 30, 2017 totaled \$36,127,854, an 83.2% increase over the prior year, and included \$13,330,469 for capital projects, \$11,052,462 for debt service and \$3,322,060 for public safety. Also, disbursements for business type activities totaled \$4,150,968. The increase in disbursements is due primarily to an increase in road improvement projects.

A copy of the audit report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1720-0719-B00F>.

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CITY OF GRIMES
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2017

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City of Grimes

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tom Armstrong	Mayor	Jan 2018
Jill Altringer	Mayor Pro tem	Jan 2018
Doug Bickford	Council Member	Jan 2018
Ty Blackford	Council Member	Jan 2018
Jeremy Hemp	Council Member	Jan 2020
Eric Johansen	Council Member	Jan 2020
Kelley Brown	City Administrator	Dec 2017
Mark Arentsen	Interim City Administrator	Indefinite
Rochelle Williams	City Clerk	Indefinite
Deborah Gallagher	City Treasurer	Indefinite
Tom Henderson	Attorney	Indefinite

City of Grimes



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grimes, Iowa, as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grimes as of June 30, 2017, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grimes' basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2016 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 9 through 24 and 50 through 56, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 2, 2018 on our consideration of the City of Grimes' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Grimes' internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

February 2, 2018

City of Grimes

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Grimes provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2017. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2017 FINANCIAL HIGHLIGHTS

- The governmental activities property tax and tax increment financing receipts increased \$1,399,321 from fiscal year 2016 to fiscal year 2017. This is the result of the regular taxable valuation increasing from \$487,144,499 to \$551,741,448. Over the past ten years, the regular taxable valuation has grown from \$219,283,831 to \$551,741,448, resulting in an increase of \$332,457,617, or 151.61%.
- Receipts and transfers of the City's governmental activities increased \$8,468,616 from fiscal year 2016 to fiscal year 2017. Capital grants in the form of development agreements account for \$5,537,558 of this increase. There was also a tax receipt increase of \$1,399,321, as indicated above and a difference in bond and other financing receipts of \$1,343,349. When considering just the tax receipts and the charges for service there was an increase of \$1,456,520 from 2016 to 2017 which is a 15.43% increase. Fiscal year 2017 continued to be very busy for the City. The 70th Street/East 1st Street project and North Sports Complex projects were finishing up. The Highway 141 utility relocation project was initiated and completed to facilitate the conversion of Highway 141 to three lanes in each direction. The NE Main Street and N James Street projects were both also underway as well as major improvements to the Wastewater and Water Plans finishing up the second RO System.
- Building permit fees increased \$64,841 from \$506,657 to \$571,498. Residential permits aren't as high as previous years but the number of townhomes and multi-family dwellings has increased. Plat revenue actually decreased from \$329,755 to \$265,211. Each year plat fees vary depending on the timing of the plats being approved and developed. Overall, the picture that is being painted remains one of overall growth and healthy development. New plats continue to be up and going strong. Permitting and construction are on the move and the City continues to be on the forefront of development.
- Commercial and industrial valuations have grown steadily over the last ten years. In fiscal year 2007, the commercial and industrial valuation total was \$108,448,634. In fiscal year 2017, that same total was \$192,109,730, an increase of 77.14% over the last ten years. From 2016 to 2017, there was an increase of \$3,595,501 from \$188,514,229, to \$192,109,730 or 1.9%. A growing community always needs to maintain a healthy balance of commercial and residential development to help maintain taxes at a consistent level. Currently, commercial valuation accounts for 29.05% of the City's taxable valuation.
- The cash balance at June 30, 2017 decreased \$2,827,020 to \$18,650,363. The majority of the current difference is that in 2016 the cash balance of the Debt Service Fund increased significantly due to the refunding proceeds of the 2007 bonds in the amount of \$2,151,214, which were disbursed in 2017 when the bonds were refunded. The ending cash balances of business type activities also increased \$1,306,266. In addition, the proceeds from road use tax (RUT) receipts increased \$220,251.
- Road use tax receipts, as noted above, have increased approximately 65.4% over the last three years, from \$857,440 to \$1,418,093. All cities in Iowa receive RUT funds. These are distributed on a per capita basis. The *Code of Iowa*, Chapter 312.14, requires cities which

receive an allotment to prepare an annual report showing receipts and disbursements for street-related activities. This annual report is not limited to RUT funds. It includes all receipts and disbursements spent on streets. This report is called the Street Finance Report from the Iowa Department of Transportation (IDOT) and is filed with IDOT each year. The amount disbursed was \$120.50 per person for fiscal year 2016, \$121.00 for fiscal 2017 and is expected to hold steady at \$121.00 per person for fiscal year 2018.

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

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

- Disbursements for the City's governmental activities increased \$16,385,374, or 105%, from fiscal year 2016 to fiscal year 2017. The net increase in disbursements, after eliminating the effects of capital projects and debt service is an increase of \$836,685, from \$6,757,269 in fiscal year 2016 to \$7,593,954 in fiscal year 2017. Some of the major differences were an increase in the public safety function due to the hiring of new personnel, an increase in wages overall to be competitive with the metro and an increase in the Polk County Sheriff's contract. For the public works function, it was an increase in personnel. The remaining functions realized smaller increase due to overall operational costs.
- No doubt, the water issue continues to be and always will be a priority. The drought of the summer of 2012 had long-lasting effects on the City's shallow wells. The project to build a new Jordan well at over 2,800 feet was awarded in late winter of 2012 at an approximate cost of \$2,000,000. In addition, the aquifer storage recovery (ASR) continues to be under construction with pump and testing problems. The light at the end of this tunnel is that the City tested and has implemented two new Reverse Osmosis (RO) systems. The end result is much higher quality water for the citizens of Grimes that is coming from the Jordan Well, and it's a more reliable water source. The City is now in the planning stages for a major plant expansion that will commence in 2019-2020.
- The City's governmental activities total cash basis net position decreased approximately 26.3%, or \$4,133,286, from June 30, 2016 to June 30, 2017. A majority of this decrease can be accounted for by the timing of the bond proceeds and the refunding of the 2007 bond issue.

The bond issues over the last several years have financed exciting improvements benefiting all of the citizens in Grimes as well as furthering the economic development of this area. The recent \$3.5 million bond issue approved in April of 2016 financed a larger Reverse Osmosis system for the water plant. The City has approved three bond issues in the last seven years. The first was a \$10 million bond issue approved in November 2009. The use of the 2010 bond issue was as follows: the demolition of the elevator buildings (\$270,000), the GCC HVAC project (\$463,000), the Comprehensive Plan (\$85,000), Map updates (\$50,000), Phase I Storm Water Implementation (\$70,000), SE Capitol City Pavement repairs (\$165,000), E 1st St Improvements 2009 (\$1,300,000), SE 37th Street Overlay (\$625,000), S James Improvements (\$1,700,000), NW 142nd and 82nd Ave overlay (\$100,000), NW 78th overlay (\$50,000), Gateway Dr Extension (\$270,000), 1st Street (Highway 44) (\$2,772,000), Outfall Trunk Sewer (\$1,400,000), water main extension and water tower painting (\$370,000) and QT Improvements (\$22,500). The rest was either part of the bonding fees or

was disbursed on other infrastructure improvements. In 2013, a \$6.0 million bond was issued to fund the reconstruction of SE Main Street (\$3,100,000), the North James Street overlay (\$385,000), a NW Transportation Study (\$100,000), Alley Improvements (\$75,000), NW 100th and SE 37th Street Improvements (\$656,000), Autumn Park Drainage Improvements (\$325,000), Chevalia Bridge and Trail work (\$110,000), SE 19th Street (\$700,000), NPDES permit (\$115,000) and general road improvements (\$497,615) and in June 2015, an \$8.5 million bond issue was passed for improvements as follows: Grimes Maintenance Facility (\$700,000), Autumn Park road resizing (\$75,000), NW 70th Improvements with Johnston (\$866,900), North Sports Complex (\$1,400,000), North James Bridge (\$444,000), North James and Beaverbrooke Boulevard (\$2,200,000), SE Gateway Dr (\$275,000), NE Main (\$2,200,000) and SE 37th (\$521,836). Most recently, the City entered in a SRF agreements in the amount of \$3,435,000 for sewer revenue bonds and \$577,000 for water revenue bonds.

- The General Fund cash balance increased \$1,176,310. The Special Revenue, Road Use Tax Fund cash balance increased \$131,989. The TIF fund increased \$73,020. The Debt Service Fund cash balance decreased \$2,151,748 because the funds being held in escrow in 2016 were paid out in 2017. The Capital Projects Fund balance decreased \$3,478,269 due to timing or projects started in 2016. The other nonmajor governmental fund cash balances increased \$115,412. The City Council continues to be prudent in its budgeting and has heeded previous cautions by auditors to use fund balances versus tax collections wherever possible.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

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

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water system, the sanitary sewer system, the solid waste disposal system and the storm water system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

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

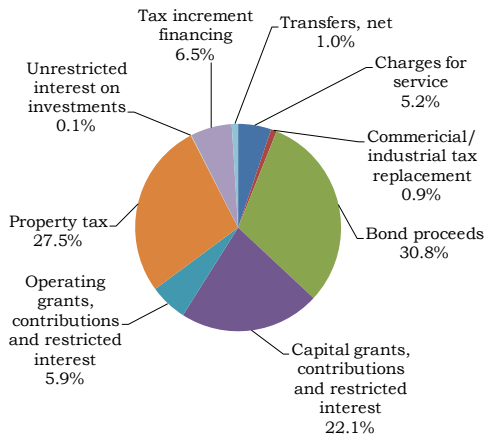
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The cash balance decreased over last year, from approximately \$15.706 million to approximately \$11.573 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

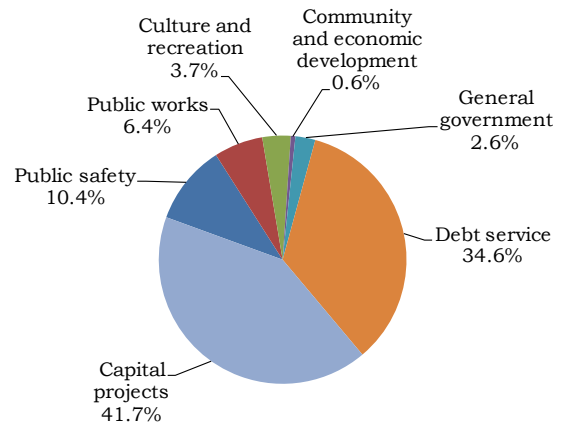
Changes in Cash Basis Net Position of Governmental Activities

	Year ended June 30,	
	2017	2016
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 1,444,341	1,387,142
Operating grants, contributions and restricted interest	1,636,031	1,434,020
Capital grants, contributions and restricted interest	6,142,577	605,019
General receipts:		
Property tax	7,655,030	6,708,482
Tax increment financing	1,797,621	1,344,848
Commercial/industrial tax replacement	248,426	253,968
Unrestricted interest on investments	27,962	17,917
Bond proceeds	8,608,612	6,565,263
Loan proceeds	-	700,000
Sale of capital assets	-	58,325
Transfers, net	283,000	300,000
Total receipts and transfers	<u>27,843,600</u>	<u>19,374,984</u>
Disbursements:		
Public safety	3,322,060	2,969,314
Public works	2,045,727	1,734,554
Culture and recreation	1,189,625	1,117,152
Community and economic development	192,037	118,560
General government	844,506	817,689
Debt service	11,052,462	3,403,085
Capital projects	13,330,469	5,431,157
Total disbursements	<u>31,976,886</u>	<u>15,591,511</u>
Change in cash basis net position	(4,133,286)	3,783,473
Cash basis net position beginning of year	<u>15,705,980</u>	<u>11,922,507</u>
Cash basis net position end of year	<u>\$ 11,572,694</u>	<u>15,705,980</u>

Receipts by Source



Disbursements by Function



The City's total receipts and transfers for governmental activities increased 43.71%, or \$8,468,615. Most of this is due to proceeds from a development agreement for the paving of NE Beaverbrooke Boulevard and IDOT reimbursements in the amount of over \$6 million. SRF proceeds and bond refinancings resulted in an increase of \$2 million over fiscal year 2016. It is important to reiterate that there was a significant increase in tax receipts resulting from an increase in regular taxable valuation, from \$487,144,499 to \$551,741,448. Regular taxable valuation increased 13.26%, or \$64,596,949. Property tax receipts, not including TIF collections or other city tax, increased \$946,548. TIF collections increased \$452,773. The total disbursements increased \$16,385,374, or 105.09%. Most of this increase is accounted for in both the debt service accounts for the refinancing of bonds and the capital improvements account.

The City's property tax rates for fiscal year 2017 increased ever so slightly, with a tax rate of \$12.91473 per \$1,000 of taxable valuation for fiscal year 2017 versus \$12.91377 per \$1,000 of taxable valuation for fiscal year 2016. The rollback percentage decreased from 55.7335% in 2016 to 55.6259% in 2017. Commercial property tax held steady at 90% in 2017. For the first year, multi-residential decreased to 86.25%. The residential rollback percentage is projected to increase slightly for fiscal year 2018 to 56.9391%, the commercial/industrial tax will remain the same and multi-residential will decrease to 82.5%. The tax rate, coupled with the slight decrease in the rollback, has the result of decreasing the net city tax paid by the homeowner of a \$150,000 home by \$1.96. Note, however, the tax levy to property owners is affected by other factors, such as an overall increase or decrease in the valuation of their property or any changes in school, county or other tax levies. The DC-G School District's portion of the property tax rates has increased from \$17.95314 in fiscal year 2016 to \$19.3652 in 2017. Other tax rate increases per \$1,000 of taxable valuation include: County up \$.437 per \$1,000 of taxable valuation and Area XI College up \$.04 per \$1,000 of taxable valuation.

The cost of all governmental activities this year was approximately \$31.977 million compared to approximately \$15.592 million last year. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 26-27, the amount taxpayers ultimately financed for these activities was only \$22.754 million because \$1,444,341 of the cost was paid by those directly benefiting from the programs. \$1,636,031 was paid by other governments and organizations which subsidized certain programs with operating grants, contributions and restricted interest and capital grants, contributions and restricted interest (developer agreements, etc.) of \$6,142,577 were received. Overall, the City's governmental activities cash basis net position decreased from \$15.706 million at June 30, 2016 to \$11.573 million at June 30, 2017, principally due to the timing of the receipt of the bond proceeds in late June of 2016 and spending the proceeds from the previous bond issue on capital projects in fiscal 2017. The City paid for the remaining "public benefit" portion of governmental activities with \$9.453 million in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements, \$1,399,321 of which was new tax revenue.

Changes in Cash Basis Net Position of Business Type Activities

	Year ended June 30,	
	2017	2016
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 2,952,301	2,430,025
Sewer	1,902,772	1,600,671
Storm water	513,206	460,927
Solid waste	371,955	354,810
General receipts:		
Unrestricted interest on investments	-	7
Total receipts	5,740,234	4,846,440
Disbursements and transfers:		
Water	2,152,297	2,266,826
Sewer	1,366,589	1,194,107
Storm water	131,657	214,499
Solid waste	500,425	449,114
Transfers, net	283,000	300,000
Total disbursements and transfers	4,433,968	4,424,546
Change in cash basis net position	1,306,266	421,894
Cash basis net position beginning of year	5,771,403	5,349,509
Cash basis net position end of year	\$ 7,077,669	5,771,403

Total business type activities receipts for fiscal year 2017 were approximately \$5.740 million compared to approximately \$4.846 million last year.

The cash balance for business type activities at June 30, 2017 increased \$1,306,266 over the prior year. Receipts increased \$893,794 and disbursements and transfers increased marginally by \$9,422. Total disbursements and net transfers for the fiscal year increased from approximately \$4.425 million last year to approximately \$4.434 million for fiscal year 2017.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Grimes completed the year, its governmental funds reported a combined fund balance of \$11,572,694, a decrease of \$4,133,286 from last year's total of \$15,705,980. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$1,176,310 over the prior year to \$5,024,930. As stated many times already, additional tax revenue of \$1,399,321 was also received. The City continues to monitor taxes and ending fund balances to determine the ideal balance between having money in reserve for unforeseen emergencies versus keeping taxes at a consistent level.
- The Special Revenue, Road Use Tax Fund cash balance increased \$131,989 from June 30, 2016 to June 30, 2017 and is now currently \$1,023,510. The City continues to work on pavement projects throughout the City and is committed to the continued use of road use tax receipts for major construction projects versus operation of the street department.

- The Special Revenue, Tax Increment Financing (TIF) Fund was established years ago to finance projects whereby an investment by the City in infrastructure results in an overall larger tax base. The premise of the use of TIF can be illustrated in this example. The City designated the area east of Little Beaver to Highway 141 and south to Urbandale as an urban renewal area. The City issued bonds and used TIF financing to pay for the sewer, water, road improvements and the signals at 54th Street and Highway 141. As a result of that investment, this area has been converted from fields into businesses. The increase in tax receipts obtained from the growth in this urban renewal area is first used to pay off the debt incurred to extend the utilities to this area. After the debt has been paid, the City, County and School District gain the benefit of the increased tax receipts. The resulting benefit to the citizens of the City and the Dallas Center-Grimes School District is an increase in the valuation of the City, resulting in increased tax receipts to provide services. Traditionally, the City Council has only used TIF financing to promote commercial or industrial development. These are taxed at 90% of their valuation versus residential valuation which is taxed at 55.6259% for fiscal year 2017. The City is currently certifying TIF debt for the payment of the utilities extended in the example above, transportation, trail system planned improvements, Sports Complex North, signals at Highway 141 and NW 62nd/SE 19th Street, the fire station addition and the paving of James Street. The area east of Highway 141 South and south of South 11th Street was amended into the urban renewal area so TIF financing could be used for the signals at Highway 141 and NW 62nd/SE 19th Street and for the South 11th Street project. The City has also completed the process of amending the remaining portion of the annexed area into the urban renewal area to give the City ultimate flexibility for the use of TIF for economic development, as well as improvements to lower valued properties. TIF has recently been used in developer agreements, whereby the developer fronts the money for the infrastructure improvements. The developer is then repaid its investment from the tax generated from the increment in valuation caused by development of the property. The developer is given the incentive to repay its self-incurred debt from the timely development of the property. TIF has most recently been used to offset tax abatement to give warehousing structures in the City the same advantage as they would have in neighboring cities with slightly lower tax rates.

At the end of the fiscal year, the TIF cash balance was \$128,226, an increase of \$73,020 from the previous year. The City only certifies enough TIF receipts to pay off the current year's portion of the debt each year. If the resulting taxes generated from the increment in valuation are more than needed to make the bond payments, the City, the County and the School District receive the benefit of the tax revenue. This year, the City received TIF of \$1,797,621 as compared to \$1,344,848 in fiscal year 2016.

- The Debt Service Fund cash balance decreased to \$2,827,784 during fiscal year 2017 from \$4,979,532. The decrease is mostly due to the \$2,151,214 that was held in escrow in 2016 and paid in 2017 to refund the 2007 bond issue.
- The Capital Projects Fund cash balance decreased from \$5,415,809 to \$1,937,540 in fiscal year 2017. Capital projects vary from year to year and are dependent on the timing of bonding proceeds and the timing of the large capital projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

In fiscal year 2017, the Enterprise, Water Fund cash balance increased \$600,004 to \$2,740,768. This balance allowed for \$200,000 to be transferred to the Capital Projects Fund. The receipts increased from \$2,430,025 in 2016 to \$2,952,301 in 2017 and there was a slight decrease in disbursements from \$2,266,826 in 2016 to \$2,152,297 in 2017.

In fiscal year 2017, the Enterprise, Sewer Fund cash balance increased \$336,183, from \$2,805,048 to \$3,141,231. Receipts increased \$302,101 and disbursements increased \$172,482. This balance also allowed for \$200,000 to be transferred to the Capital Projects Fund.

In fiscal year 2017, the Enterprise, Storm Water Fund cash balance increased \$381,549 from \$813,327 to \$1,194,876. Receipts increased \$52,279 and disbursements decreased \$82,842.

Although this is a nonmajor fund, the Solid Waste Fund continues to be subsidized using emergency levy tax dollars. Also of note, the City Council enacted the storm water utility fee in January 2014. \$371,955 was received in fiscal year 2017 for solid waste.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The first amendment was approved on February 14, 2017 and the second was approved on June 27, 2017. Typically, the City’s amendments are necessitated by the actual timing of the disbursements for capital projects and for refinancing and issuances of bonds.

When all was said and done and the final numbers were calculated as of June 30, 2017, the variations between what was budgeted and what was actually received or disbursed are as follows. First of all, when the development agreements in intergovernmental are taken off of the total balance the receipts that were received were less than 2 percent over what was budgeted. After reducing the remaining unexpended balance for disbursements for capital projects, the difference between what was budgeted and what was expended was approximately 9 percent.

DEBT ADMINISTRATION

At June 30, 2017, the City had approximately \$32,043 million of bonds and other long-term debt outstanding compared to approximately \$34.415 million at June 30, 2016, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2017	2016
General obligation bonds	\$ 23,795	28,085
Revenue bonds	7,666	5,536
Loan agreements	162	240
Lease-purchase agreements	420	554
Total	\$ 32,043	34,415

In the fall of 2012, a \$6.0 million bond was issued to fund the reconstruction of SE Main Street (\$3,100,000), the North James Street overlay (\$385,000), a NW Transportation Study (\$100,000), Alley Improvements (\$75,000), NW 100th and SE 37th Street Improvements (\$656,000), Autumn Park Drainage Improvements (\$325,000), Chevalia Bridge and Trail work (\$110,000), SE 19th Street (\$700,000), NPDES permit (\$115,000) and general road improvements (\$497,615). The City also obtained a new SRF loan for the construction of the new Jordan well in the amount of \$2,432,000. In addition, the City continues to certify TIF debt to lower the amount of property tax needed for debt service. The amount of TIF debt certified for development and rebate agreements subject to annual appropriation was approximately \$1,175,276 at June 30, 2012, \$1,332,000 at June 30, 2013, \$1,155,957 at June 30, 2014, \$1,072,175 at June 30, 2016 and \$1,724,601 at June 30, 2017. The \$8.5 million bond issue was passed in 2015 and the proceeds will be used as follows: Grimes Maintenance Facility (\$700,000), Autumn Park road resizing (\$75,000), NW 70th

Improvements with Johnston (\$866,900), North Sports Complex (\$1,400,000), North James Bridge (\$444,000), North James and Beaverbrooke Boulevard (\$2,200,000), SE Gateway Drive (\$275,000), NE Main (\$2,200,000) and SE 37th (\$521,836). In 2017, a \$3.5 million bond issue was passed to finance a Reverse Osmosis System for the water treatment plant. Most recently the City entered in a SRF agreements in the amount of \$3,435,000 for sewer revenue bonds and \$577,000 for water revenue bonds.

It is worthy to note that because of the ongoing lower interest rates, the City refinances bond issues whenever possible to save on interest costs.

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

SUMMARY RATING RATIONALE

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

CREDIT STRENGTHS

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

CREDIT CHALLENGES

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

RATING OUTLOOK

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

FACTORS THAT COULD LEAD TO AN UPGRADE

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

FACTORS THAT COULD LEAD TO A DOWNGRADE

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

RECENT DEVELOPMENTS

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

DETAILED RATING CONSIDERATIONS

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

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

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

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

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

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

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

Liquidity

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

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

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

Debt Structure

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

Debt-Related Derivatives

The City has no derivative exposure.

Pensions and OPEB

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

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

MANAGEMENT AND GOVERNANCE: VERY STRONG INSTITUTIONAL FRAMEWORK AND PRUDENT MANAGEMENT

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

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

LEGAL SECURITY

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

USE OF PROCEEDS

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

OBLIGOR PROFILE

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

METHODOLOGY

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

RATINGS

- General Obligation Water Improvement and Refunding Bonds, Series 2017: Aa2
- Rating Type: Underlying LT
- Sale Amount: \$6,110,000
- Expected Sale Date: 04/20/2016
- Rating Description: General Obligation

The City's outstanding general obligation debt, including annually appropriated rebate agreements of \$582,000, total approximately \$24,377 million and is significantly below its constitutional debt limit of approximately \$48.809 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 2018 budget, tax rates and fees charged for various City activities. One of the factors the City Council will have to consider is a potential increase in garbage rates. In the past, tax receipts have been used to subsidize this Enterprise Fund. As well, the City Council has enacted a storm water utility fee and will now need to prioritize the maintenance and repairs needed to the water ways throughout the City. In addition, this fee will be used to pay for the NPDES Phase II Stormwater Regulations. As more and more regulations are being put in place to regulate the water going into streams and lakes, the costs to manage these requirements continue to escalate. Most of the metro cities have a storm water utility in place which pays for these costs.

The City's valuation continues to significantly increase. Valuation, excluding TIF designated areas, rose from \$805,824,032 in fiscal year 2016 to \$922,764,210 in fiscal year 2017. That is an increase of \$116,940,178 or 14.51%. In fiscal year 2018, the valuation has increased to \$993,359,926. That's an increase of \$70,595,716 or 7.65%. The actual step increases over the years are as follows: 2009-2010, 13.8%, 2010-2011, 13.6%, 2011-2012, 4.9%, 2012-2013, 2.7%, 2013-2014, 5%, 2014-2015, 6%, 2015-2016, 7.8%, 2016-2017, 14.51% and 2017-2018 7.65%. General property tax receipts are projected to increase \$573,699.

Building permits have remained relatively steady. In fiscal year 2013, there were 143 single family permits valued at \$22,581,235, 11 multi-family permits valued at \$7,096,000 and 21 commercial permits valued at \$5,335,157. In fiscal year 2014, there were 169 single family permits valued at \$31,774,199, 12 multi-family permits valued at \$6,492,600 and 17 commercial permits valued at \$20,417,560. In fiscal year 2015, there were 227 single family permits valued at \$43,461,903.39, 2 multi-family permits valued at \$7,019,792.12 and 24 commercial permits valued at \$30,634,300.94, in fiscal 2016 there were 165 single family permits valued at \$34,954,034, 46 multi-family permits valued at \$5,159,382 and 12 commercial permits valued at \$15,340,608 and in 2017 there were 197 single family permits valued at \$27,360,560, 84 townhome and multi-family permits valued at \$15,319,378 and 29 commercial permits valued at \$39,302,051. Historically, the percentage changes of the value of the single family permits is as follows: 2012 to 2013, 35% increase, 2013 to 2014, 40% increase, 2014 to 2015, 36.7% increase, 2015 to 2016, 19.5% decrease and 2016 to 2017 a 21.7% decrease. However multi-family increased 196.92% and commercial increased 156.20%. The current number of developing plats and lots are as follows:

<u>PLAT NAME</u>		<u># OF LOTS</u>	
Autumn Park Plat 2		31	
Autumn Park Plat 3		57	
Autumn Park Plat 4		26	
Autumn Park Plat 5		50	
Autumn Park Plat 6		34	
Autumn Park West Plat 1		34	
Beaverbrooke West Plat 8		129	
Beaverbrooke West Plat 9		73	
Beaverbrooke Pointe Plat 1		69	
Brentwood Estates		76	
Bridge Creek Plat 1		4	
Bridge Creek Plat 2		11	
Bridge Creek Plat 3		20	
Bridge Creek Plat 5		13	
Brooke Ridge Plat 1		29	
Brooke Ridge Plat 2		24	
Brooke Ridge West Plat 3		30	
Caymus Park Plat 1	Townhomes	41	Units
Caymus Park Plat 2	Townhomes	41	Units
Chevalia Valley Lot 44		18	Units
Chevalia Valley Plat 2		32	
Destination Ridge Plat 4	Multi Family	384	Units
Glenstone Meadows	Townhomes	41	Units
Grimes Crossing Plat 8	Multi Family	134	Units
Heritage Apartments	Multi Family	330	Units
Heritage Plat 1		18	
Heritage Plat 2 Lot 3		136	
Heritage Plat 3		68	
Heritage Plat 4		64	
Heritage Plat 5		75	
Heritage Plat 6		33	

PLAT NAME		# OF LOTS	
Heritage Lakeview TH	Townhomes	12	Units
Heritage Station TH	Townhomes	56	Units
James Street Villas	Townhomes	14	Units
Kennybrook Estates TH	Townhomes	57	Units
Kennybrook South Plat 1		25	
Kennybrook South Plat 2		19	
Kennybrook South Plat 3		19	
Kennybrook South Plat 4		22	
Meadowlark Place Plat 3	Multi Family	90	Units
Meadowlark South Plat 3		22	
Meadowlark South Plat 4		33	
Meadowlark South Plat 5		29	
Meadowlark South Plat 6		48	
North Park Estates		22	
North Pointe Townhomes	Townhomes	36	Units
Pepperwood Glen	Multi-Family	126	Units
Pinnacle Pointe Plat 1		10	
Silkwood Meadows		30	
		2795	

In addition, the economy is a factor. This is from the U.S. Census Bureau from our special census in 2016. Our population increased from 8,246 in 2010 to 11,423 in 2016. This is an increase of 3,177, or 38.52%.

Characteristics -	Number	Percent	U.S.
In labor force (population 16 ears and over)	5,745	84.7%	63.3%
Mean travel time to work in minutes (population 16 years and over)	21.3	(X)	25.9%
Median household income (dollars)	\$77,652	(X)	53,889
Median family income (dollars)	86,042	(X)	72,165
Per capita income (dollars)	33,394		28,930
Families below poverty level	43	2.5%	10.4%
Individuals below poverty level	183	3.1%	13.5%
Housing Characteristics	Number	Percent	U.S.
Single-family owner-occupied homes	3,324	100.0%	
Median value (dollars)	\$177,500	(X)	\$178,600
Median of selected monthly owner costs	(X)	(X)	
With a mortgage	1,397	(X)	1,492
Not mortgaged	602	(X)	458

(X) Not applicable

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

The City currently has continuing projects under construction, as follows: The ASR (aquifer storage recovery) well project is now almost complete. This project, if successful, could provide the needed water storage to delay potential improvements to the water plant by 3-5 years. The premise of this project is the water plant can pump extra water into this well for storage during

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

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

Major highlights for the Fiscal 2018 are as follows. Project an increase in tax revenue of \$573,699. The budget accounts for an increase in coverage from Polk County Sheriff's office, new street department personnel, upgrades in technology for the library to increase their level of service to our residents, improvements to KennyBrook South Park, starting the construction of a new water tower, increased services for the park & recreation programs, increases in public safety and a new ambulance has been ordered to name just a few. Both water and sewer revenues are expected to increase. Any additional water revenues are being set aside to finance the new major expansion to the water plant currently scheduled for 2019-2020. The tax rate is relatively the same with a small decrease to \$12.91035 per \$1,000 of taxable valuation. It will be another exciting year for the City of Grimes! As always, the City Council balances the ending balances needed to keep a higher bond rating with the potential tax impact to the citizens of Grimes.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mark Arentsen, Interim City Administrator, 101 North Harvey, Grimes, Iowa 50111 or by e-mail at marentsen@ci.grimes.ia.us.

Basic Financial Statements

City of Grimes

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2017

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 3,322,060	1,145,281	24,480	-
Public works	2,045,727	-	1,418,093	-
Culture and recreation	1,189,625	204,970	46,469	-
Community and economic development	192,037	-	4,141	-
General government	844,506	51,078	28,006	-
Debt service	8,947,462	-	51,781	127,336
Capital projects	13,330,469	43,012	63,061	6,015,241
Total governmental activities	29,871,886	1,444,341	1,636,031	6,142,577
Business type activities:				
Water	2,152,297	2,952,301	-	-
Sewer	1,366,589	1,902,772	-	-
Storm water	500,425	513,206	-	-
Solid waste	131,657	371,955	-	-
Total business type activities	4,150,968	5,740,234	-	-
Total	\$ 34,022,854	7,184,575	1,636,031	6,142,577
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Commercial/industrial tax replacement				
General obligation bond proceeds, net of \$127,763 premium				
Payment of refunding bonds				
Unrestricted interest on investments				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Debt service				
Streets				
Urban renewal purposes				
Capital projects				
Other purposes				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(2,152,299)	-	(2,152,299)
(627,634)	-	(627,634)
(938,186)	-	(938,186)
(187,896)	-	(187,896)
(765,422)	-	(765,422)
(8,768,345)	-	(8,768,345)
(7,209,155)	-	(7,209,155)
(20,648,937)	-	(20,648,937)
-	800,004	800,004
-	536,183	536,183
-	12,781	12,781
-	240,298	240,298
-	1,589,266	1,589,266
(20,648,937)	1,589,266	(19,059,671)
6,220,100	-	6,220,100
1,434,930	-	1,434,930
1,797,621	-	1,797,621
248,426	-	248,426
8,608,612	-	8,608,612
(2,105,000)	-	(2,105,000)
27,962	-	27,962
283,000	(283,000)	-
16,515,651	(283,000)	16,232,651
(4,133,286)	1,306,266	(2,827,020)
15,705,980	5,771,403	21,477,383
\$ 11,572,694	7,077,669	18,650,363
\$ 2,827,784	374,272	3,202,056
1,023,510	-	1,023,510
128,226	-	128,226
1,937,540	-	1,937,540
630,704	-	630,704
5,024,930	6,703,397	11,728,327
\$ 11,572,694	7,077,669	18,650,363

City of Grimes

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

As of and for the year ended June 30, 2017

	Special Revenue			
	General	Tax		
		Road Use Tax	Increment Financing	
Receipts:				
Property tax	\$ 4,937,318	-	-	
Tax increment financing	-	-	1,797,621	
Other city tax	235,576	-	-	
Licenses and permits	621,241	-	-	
Use of money and property	37,062	-	-	
Intergovernmental	179,205	1,418,093	-	
Charges for service	697,800	-	-	
Special assessments	-	-	-	
Miscellaneous	52,303	-	-	
Total receipts	<u>6,760,505</u>	<u>1,418,093</u>	<u>1,797,621</u>	
Disbursements:				
Operating:				
Public safety	3,295,773	-	-	
Public works	1,342,868	702,859	-	
Culture and recreation	1,185,194	-	-	
Community and economic development	192,037	-	-	
General government	844,506	-	-	
Debt service	-	-	-	
Capital projects	-	-	-	
Total disbursements	<u>6,860,378</u>	<u>702,859</u>	<u>-</u>	
Excess (deficiency) of receipts over (under) disbursements	<u>(99,873)</u>	<u>715,234</u>	<u>1,797,621</u>	
Other financing sources (uses):				
General obligation bond proceeds, net of \$127,763 premium	-	-	-	
Payment of refunding bonds	-	-	-	
Transfers in	1,393,183	-	-	
Transfers out	<u>(117,000)</u>	<u>(583,245)</u>	<u>(1,724,601)</u>	
Total other financing sources (uses)	<u>1,276,183</u>	<u>(583,245)</u>	<u>(1,724,601)</u>	
Change in cash balances	1,176,310	131,989	73,020	
Cash balances beginning of year	<u>3,848,620</u>	<u>891,521</u>	<u>55,206</u>	
Cash balances end of year	<u>\$ 5,024,930</u>	<u>1,023,510</u>	<u>128,226</u>	
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ -	-	-	
Streets	-	1,023,510	-	
Urban renewal purposes	-	-	128,226	
Capital projects	-	-	-	
Other purposes	-	-	-	
Unassigned	<u>5,024,930</u>	<u>-</u>	<u>-</u>	
Total cash basis fund balances	<u>\$ 5,024,930</u>	<u>1,023,510</u>	<u>128,226</u>	

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
1,434,930	-	1,047,206	7,419,454
-	-	-	1,797,621
-	-	-	235,576
-	-	-	621,241
51,781	43,012	4,141	135,996
101,095	6,015,241	55,968	7,769,602
-	63,061	-	760,861
127,336	-	-	127,336
-	-	31,998	84,301
<u>1,715,142</u>	<u>6,121,314</u>	<u>1,139,313</u>	<u>18,951,988</u>
-	-	26,287	3,322,060
-	-	-	2,045,727
-	-	4,431	1,189,625
-	-	-	192,037
-	-	-	844,506
8,947,462	-	-	8,947,462
-	13,330,469	-	13,330,469
<u>8,947,462</u>	<u>13,330,469</u>	<u>30,718</u>	<u>29,871,886</u>
<u>(7,232,320)</u>	<u>(7,209,155)</u>	<u>1,108,595</u>	<u>(10,919,898)</u>
5,552,823	3,055,789	-	8,608,612
(2,105,000)	-	-	(2,105,000)
1,632,749	675,097	-	3,701,029
-	-	(993,183)	(3,418,029)
<u>5,080,572</u>	<u>3,730,886</u>	<u>(993,183)</u>	<u>6,786,612</u>
(2,151,748)	(3,478,269)	115,412	(4,133,286)
<u>4,979,532</u>	<u>5,415,809</u>	<u>515,292</u>	<u>15,705,980</u>
<u>2,827,784</u>	<u>1,937,540</u>	<u>630,704</u>	<u>11,572,694</u>
2,827,784	-	-	2,827,784
-	-	-	1,023,510
-	-	-	128,226
-	1,937,540	-	1,937,540
-	-	630,704	630,704
-	-	-	5,024,930
<u>2,827,784</u>	<u>1,937,540</u>	<u>630,704</u>	<u>11,572,694</u>

City of Grimes

City of Grimes

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

As of and for the year ended June 30, 2017

	Enterprise				Total
	Water	Sewer	Storm Water	Solid Waste Nonmajor	
Operating receipts:					
Charges for service	\$ 2,952,301	1,902,772	513,206	371,955	5,740,234
Operating disbursements:					
Business type activities	1,608,107	846,717	131,657	500,425	3,086,906
Excess (deficiency) of operating receipts over (under) operating disbursements	1,344,194	1,056,055	381,549	(128,470)	2,653,328
Non-operating receipts (disbursements):					
Debt service	(544,190)	(519,872)	-	-	(1,064,062)
Excess (deficiency) of receipts over (under) disbursements	800,004	536,183	381,549	(128,470)	1,589,266
Other financing sources (uses):					
Transfers in	-	-	-	117,000	117,000
Transfers out	(200,000)	(200,000)	-	-	(400,000)
Total other financing sources (uses)	(200,000)	(200,000)	-	117,000	(283,000)
Change in cash balances	600,004	336,183	381,549	(11,470)	1,306,266
Cash balances beginning of year	2,140,764	2,805,048	813,327	12,264	5,771,403
Cash balances end of year	\$ 2,740,768	3,141,231	1,194,876	794	7,077,669
Cash Basis Fund Balances					
Restricted for debt service	\$ 215,152	159,120	-	-	374,272
Unrestricted	2,525,616	2,982,111	1,194,876	794	6,703,397
Total cash basis fund balances	\$ 2,740,768	3,141,231	1,194,876	794	7,077,669

See notes to financial statements.

City of Grimes

City of Grimes

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

For financial reporting purposes, the City of Grimes has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

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

Blended Component Unit

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Polk County Assessor's Conference Board and the Polk County Joint E911 Service Board.

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

B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

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

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

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

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds 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 the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Tax Increment Financing Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

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

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

The City reports the following major proprietary funds:

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

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

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

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2017, disbursements exceeded the amount budgeted in the community and economic development function.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2017 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$59,264 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The City’s investment in the Iowa Public Agency Investment Trust is unrated.

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

(3) Bonds Payable and Other Financing Arrangements

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2018	\$ 2,120,000	641,930	710,000	52,728	2,830,000	694,658	3,524,658
2019	1,965,000	577,800	739,000	40,302	2,704,000	618,102	3,322,102
2020	2,035,000	521,750	767,000	27,370	2,802,000	549,120	3,351,120
2021	2,090,000	463,700	797,000	13,946	2,887,000	477,646	3,364,646
2022	2,140,000	404,050	-	-	2,140,000	404,050	2,544,050
2023-2027	6,580,000	1,379,836	-	-	6,580,000	1,379,836	7,959,836
2028-2032	5,255,000	697,012	-	-	5,255,000	697,012	5,952,012
2033-2035	1,610,000	113,925	-	-	1,610,000	113,925	1,723,925
Total	<u>\$23,795,000</u>	<u>4,800,003</u>	<u>3,013,000</u>	<u>134,346</u>	<u>26,808,000</u>	<u>4,934,349</u>	<u>31,742,349</u>

General Obligation Refunding Bonds

On May 25, 2016, the City issued \$5,545,000 of general obligation water improvement and refunding bonds of which \$2,045,000 was for the crossover advance refunding of general obligation corporate purpose bonds dated August 1, 2007. The \$2,105,000 of bonds were called on June 1, 2017.

On May 3, 2017, the City issued \$5,410,000 of general obligation refunding bonds. The bonds were issued to refund the City’s general obligation corporate purpose bonds, Series 2009, dated November 1, 2009. The general obligation corporate purpose bonds were called for redemption as of June 1, 2017 and have all been retired as of June 30, 2017.

The City refunded the general obligation corporate purpose bonds to reduce its total debt service by \$337,418. The City obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$313,172.

Water and Sewer Revenue Bonds

On July 12, 2013, the City entered into a loan agreement with the Iowa Finance Authority (IFA) and the Iowa Department of Natural Resources for the issuance of water revenue bonds up to \$2,432,000 with interest at 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing a new Jordan water supply well. The City will draw down funds from the IFA upon request to reimburse the City for costs as they are incurred. At June 30, 2017, the City had drawn down \$2,142,019 of the authorized amount. An initiation fee of \$12,160 (0.5% of the authorized borrowing for the water revenue bonds) was charged by the IFA. The initiation fee was withheld from the first proceeds of the water revenue bonds drawn by the City during the year ended June 30, 2014. A final repayment schedule has not yet been adopted. During year ended June 30, 2017, the City paid principal of \$92,019 and interest of \$34,461 on the bonds under a preliminary repayment schedule.

On September 23, 2016, the City entered into a loan agreement with the Iowa Finance Authority (IFA) and the Iowa Department of Natural Resources for the issuance of water revenue bonds up to \$577,000 with interest at 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing a water treatment facility. The City will draw down funds from the IFA upon request to reimburse the City for costs as they are incurred. At June 30, 2017, the City had drawn down \$432,120 of the authorized amount. An initiation fee of \$2,885 (0.5% of the authorized borrowing for the water revenue bonds) was charged by the IFA. The initiation fee was withheld from the first proceeds of the water revenue bonds drawn by the City during the year ended June 30, 2017. A final repayment schedule has not yet been adopted. During year ended June 30, 2017, the City paid principal of \$24,000 and interest of \$2,121 on the bonds under a preliminary repayment schedule.

On November 4, 2016, the City entered into a loan agreement with the Iowa Finance Authority (IFA) and the Iowa Department of Natural Resources for the issuance of sewer revenue bonds up to \$3,435,000 with interest at 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing a new wastewater treatment facility. The City will draw down funds from the IFA upon request to reimburse the City for costs as they are incurred. At June 30, 2017, the City had drawn down \$2,638,729 of the authorized amount. An initiation fee of \$17,175 (0.5% of the authorized borrowing for the sewer revenue bonds) was charged by the IFA. The initiation fee was withheld from the first proceeds of the sewer revenue bonds drawn by the City during the year ended June 30, 2017. A final repayment schedule has not yet been adopted. During year ended June 30, 2017, the City paid principal of \$141,000 and interest of \$17,616 on the bonds under a preliminary repayment schedule.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$8,985,000 of water revenue bonds issued in December 2000, July 2013 and September 2016. Proceeds from the bonds provided financing for the construction of water main extensions and a well. The bonds are payable solely from water customer net receipts and are payable through 2021. Annual principal and interest

payments on the bonds are expected to require less than 41% of net receipts. The total principal and interest remaining to be paid on the bonds issued in December 2000 is \$1,619,001. For the current year, principal and interest paid and total customer net receipts were \$540,938 and \$1,344,194, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$8,807,000 of sewer revenue bonds issued in December 2000 and November 2016. Proceeds from the bonds provided financing for the construction of improvements to the sewer treatment plant. The bonds are payable solely from sewer customer net receipts and are payable through 2021. Annual principal and interest payments on the bonds are expected to require less than 50% of net receipts. The total principal and interest remaining to be paid on the bonds issued in December 2000 is \$1,528,345. For the current year, principal and interest paid and total customer net receipts were \$518,976 and \$1,056,055, respectively.

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

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

Loan Agreement

On July 30, 2014, the City entered into a bank loan for \$400,000 to purchase a skid loader and 2 snow plows. The loan bears interest at 2.00% per annum and matures on July 30, 2018. The City began making annual principal payments of \$83,245, including interest on July 30, 2014. The principal balance at June 30, 2017 was \$161,557. The loan will be repaid from collections of a debt service levy on all taxable property in the City.

Lease Purchase Agreement

The City has entered into a lease-purchase agreement to lease a fire engine and equipment with a historical cost of \$700,000. The following is a schedule of the future minimum lease payments, including interest at a rate of 2.00% per annum, and the present value of net minimum least payments under the agreements in effect at June 30, 2017:

<u>Year Ending June 30,</u>	<u>Fire Engine and Equipment</u>
2018	\$ 145,680
2019	145,680
2020	<u>145,680</u>
Total minimum lease payments	437,040
Less amount representing interest	<u>(17,153)</u>
Present value of net minimum lease payments	<u>\$ 419,887</u>

Payments under the lease-purchase agreement totaled \$145,680 for the year ended June 30, 2017.

(4) Pension Plan

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

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

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

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

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

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

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

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

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

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

In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2017 totaled \$226,409.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the City reported a liability of \$1,347,811 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the City's proportion was 0.021417%, which was an increase of 0.002421% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City's pension expense deferred outflows of resources and deferred inflows of resources totaled \$204,028, \$528,182 and \$255,301, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

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

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

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28%	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
Total	<u>100%</u>	

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

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

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 2,464,661	1,347,811	405,542

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

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 39 active and no retired members in the plan. Retired participants must be 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members range from \$244 to \$972 for single coverage and from \$716 to \$1,950 for family coverage. For the year ended June 30, 2017, the City contributed \$410,729 and \$16,508 of contributions were made by plan members eligible for benefits.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory time and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time and sick leave payable to employees at June 30, 2017, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 139,000
Compensatory time	58,000
Sick leave	33,000
Total	<u>\$ 230,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2017.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2017 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road Use Tax	\$ 400,000
	Employee Benefits	993,183
		<u>1,393,183</u>
Debt Service	Special Revenue:	
	Road Use Tax	83,245
	Tax Increment Financing	1,549,504
		<u>1,632,749</u>
Capital Projects	Special Revenue:	
	Road Use Tax	100,000
	Tax Increment Financing	175,097
	Enterprise:	
	Water	200,000
	Sewer	200,000
		<u>675,097</u>
Enterprise: Solid Waste	General	117,000
Total		<u>\$ 3,818,029</u>

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

(8) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 753 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The City's contributions to the Pool for the year ended June 30, 2017 were \$177,244.

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 \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

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

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

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

The City provides health coverage for its employees through a self-insurance plan funded and administrated by the City. The City assumes liability for the difference in deductibles from the plan for any amounts over \$250 for individual coverage and \$500 for family coverage. Monthly payments of claims are paid from the City's General Fund. During the year ended June 30, 2017, the City transferred \$10,576 from the Special Revenue, Employee Benefits Fund to the General Fund to fund the fees and claims paid by the City.

(9) Development and Rebate Agreements

The City has entered into 15 development and rebate agreements to assist in certain urban renewal projects. The City agreed to rebate incremental property tax paid by the developers in exchange for the costs of certain infrastructure improvement projects constructed by the City as set forth in the urban renewal plan and the individual development and rebate agreements. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developers will be rebated for periods ranging from five to ten years, beginning with the tax year in which the property tax on the completed value of the improvements is first paid. The maximum amount to be rebated under the development and rebate agreements is the lesser of actual project costs paid by the developer or \$11,355,942. The agreements do not include provisions for payment of interest.

During the year ended June 30, 2017, the City rebated \$188,233 of incremental property tax to developers. Resources were transferred from the Special Revenue, Tax Increment Financing Fund to the Debt Service Fund and the payment of this obligation was charged to the debt service function. The outstanding principal balance on these agreements at June 30, 2017 is \$11,078,186.

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

An additional development agreement requires the City to reimburse the costs of a railway line abandonment/removal, as well as the relocation of a run-around switch. The maximum to be paid under this development agreement is \$350,000. The development agreement requires payments of \$50,000 per year until paid in full. During the year ended June 30, 2017, the City paid the final \$50,000 payment from the Special Revenue, Road Use Tax Fund.

(10) Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the City enters into agreements with developers which require the City, after developers meet the terms of the agreements, to rebate a portion of the property tax paid by the developers, to pay the developers an economic development grant or to pay the developers a predetermined dollar amount. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2017, the City abated \$51,120 of property tax under the urban renewal and economic development projects.

(11) Education Facility and Community Provider Revenue Notes

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

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

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

(12) Senior Housing Revenue Refunding Notes

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

(13) Construction Commitments

The City has entered into construction contracts totaling \$14,257,155. As of June 30, 2017, costs of \$9,968,003 had been paid on the contracts. The remaining \$4,289,152 will be paid as work on these projects progresses.

(14) Subsequent Events

On December 12, 2017, the City approved a loan agreement with the Iowa Finance Authority for \$1,809,000 of water revenue loan notes to pay for improvements to the water treatment facility.

In December 2017, the employment contract with the City Administrator was not renewed. Timely notice that the contract would not be renewed was not provided, as required per the contract. As a result, the City incurred additional costs to not renew the contract.

(15) New Accounting Pronouncement

The City adopted the tax abatement disclosure guidance set forth in Governmental Accounting Standards Board Statement No. 77, Tax Abatement Disclosures. The Statement sets forth guidance for the disclosure of information about the nature and magnitude of tax abatements which will make these transactions more transparent to financial statement users. Adoption of the guidance did not have an impact on amounts reported in the financial statements. The Notes to Financial Statements include information about tax abatements which impact the City.

(16) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information.

City of Grimes

Other Information

City of Grimes

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

Other Information

Year ended June 30, 2017

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required To Be Budgeted
Receipts:			
Property tax	\$ 7,419,454	-	-
Delinquent property tax	-	-	-
Tax increment financing	1,797,621	-	-
Other city tax	235,576	-	-
Licenses and permits	621,241	-	-
Use of money and property	135,996	-	-
Intergovernmental	7,769,602	-	-
Charges for service	760,861	5,740,234	-
Special assessments	127,336	-	-
Miscellaneous	84,301	-	24,480
Total receipts	18,951,988	5,740,234	24,480
Disbursements:			
Public safety	3,322,060	-	26,287
Public works	2,045,727	-	-
Health and social services	-	-	-
Culture and recreation	1,189,625	-	-
Community and economic development	192,037	-	-
General government	844,506	-	-
Debt service	8,947,462	1,064,062	-
Capital projects	13,330,469	-	-
Business type activities	-	3,086,906	-
Total disbursements	29,871,886	4,150,968	26,287
Excess (deficiency) of receipts over (under) disbursements	(10,919,898)	1,589,266	(1,807)
Other financing sources (uses), net	6,786,612	(283,000)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(4,133,286)	1,306,266	(1,807)
Balances beginning of year	15,705,980	5,771,403	23,829
Balances end of year	\$ 11,572,694	7,077,669	22,022

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to
	Original	Final	Net Variance
7,419,454	7,215,858	7,215,858	203,596
-	1,000	1,000	(1,000)
1,797,621	1,724,601	1,724,601	73,020
235,576	356,102	356,102	(120,526)
621,241	422,025	562,025	59,216
135,996	43,500	43,500	92,496
7,769,602	2,034,954	1,713,911	6,055,691
6,501,095	5,897,200	6,440,200	60,895
127,336	100,000	100,000	27,336
59,821	78,000	78,000	(18,179)
<u>24,667,742</u>	<u>17,873,240</u>	<u>18,235,197</u>	<u>6,432,545</u>
3,295,773	3,517,441	3,553,003	257,230
2,045,727	2,484,115	2,457,115	411,388
-	30,000	40,000	40,000
1,189,625	1,475,299	1,467,126	277,501
192,037	179,110	179,110	(12,927)
844,506	1,081,931	971,931	127,425
10,011,524	3,061,789	11,061,789	1,050,265
13,330,469	7,125,000	15,625,000	2,294,531
3,086,906	4,244,808	4,444,808	1,357,902
<u>33,996,567</u>	<u>23,199,493</u>	<u>39,799,882</u>	<u>5,803,315</u>
(9,328,825)	(5,326,253)	(21,564,685)	12,235,860
6,503,612	2,000,000	17,218,000	(10,714,388)
(2,825,213)	(3,326,253)	(4,346,685)	1,521,472
<u>21,453,554</u>	<u>14,627,175</u>	<u>14,627,175</u>	<u>6,826,379</u>
<u>18,628,341</u>	<u>11,300,922</u>	<u>10,280,490</u>	<u>8,347,851</u>

City of Grimes

Notes to Other Information – Budgetary Reporting

June 30, 2017

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by a total of \$16,600,389. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2017, disbursements exceeded the amount budgeted in the community and economic development function.

City of Grimes

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

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

Other Information

	2017	2016	2015
City's proportion of the net pension liability	0.021417%	0.018996%	0.016858%
City's proportionate share of the net pension liability	\$ 1,348	938	669
City's covered-employee payroll	\$ 2,068	1,896	1,674
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	65.18%	49.47%	39.96%
IPERS' net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

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

See accompanying independent auditor's report.

City of Grimes

Schedule of City Contributions

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

Other Information

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 226	190	175	154
Contributions in relation to the statutorily required contribution	<u>(226)</u>	<u>(190)</u>	<u>(175)</u>	<u>(154)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	\$ 2,457	2,068	1,896	1,674
Contributions as a percentage of covered-employee payroll	9.20%	9.19%	9.23%	9.20%

See accompanying independent auditor's report.

2013	2012	2011	2010	2009	2008
134	114	96	88	72	55
(134)	(114)	(96)	(88)	(72)	(55)
-	-	-	-	-	-
1,497	1,356	1,289	1,250	1,091	869
8.95%	8.41%	7.45%	7.04%	6.60%	6.33%

City of Grimes

Notes to Other Information – Pension Liability

Year ended June 30, 2017

Changes of benefit terms:

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

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

Changes of assumptions:

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

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

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

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

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, 2017

	Employee Benefits	Economic Development Revolving Loan	Special Grimes Fire and Rescue Association
Receipts:			
Property tax	\$ 1,047,206	-	-
Use of money and property	-	4,141	-
Intergovernmental	44,816	-	-
Miscellaneous	-	-	24,480
Total receipts	<u>1,092,022</u>	<u>4,141</u>	<u>24,480</u>
Disbursements:			
Operating:			
Public safety	-	-	26,287
Culture and recreation	-	-	-
Total disbursements	<u>-</u>	<u>-</u>	<u>26,287</u>
Excess of receipts over disbursements	1,092,022	4,141	(1,807)
Other financing uses:			
Transfers out	<u>(993,183)</u>	<u>-</u>	<u>-</u>
Change in cash balances	98,839	4,141	(1,807)
Cash balances beginning of year	<u>173,397</u>	<u>217,137</u>	<u>23,829</u>
Cash balances end of year	<u>\$ 272,236</u>	<u>221,278</u>	<u>22,022</u>
Cash Basis Fund Balances			
Restricted for other purposes	<u>\$ 272,236</u>	<u>221,278</u>	<u>22,022</u>

See accompanying independent auditor's report.

Revenue			
FEMA Grant	Library	Rolow Memorial	Total
-	-	-	1,047,206
-	-	-	4,141
-	11,152	-	55,968
-	7,518	-	31,998
-	18,670	-	1,139,313
-	-	-	26,287
-	4,431	-	4,431
-	4,431	-	30,718
-	14,239	-	1,108,595
-	-	-	(993,183)
-	14,239	-	115,412
34,240	64,856	1,833	515,292
34,240	79,095	1,833	630,704
34,240	79,095	1,833	630,704

City of Grimes
Schedule of Indebtedness
June 30, 2017

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Corporate purpose	Aug 1, 2007	4.00-4.10%	\$ 5,200,000
Corporate purpose	Nov 1, 2009	1.50-5.40	10,000,000
Corporate purpose	Dec 1, 2012	2.00-2.50	6,000,000
Corporate purpose	Apr 15, 2013	2.00	1,050,000
Corporate purpose	Jun 25, 2015	2.50-3.50	8,500,000
Corporate purpose	May 25, 2016	2.00-3.00	5,545,000
Corporate purpose	May 3, 2017	2.00-3.00	5,410,000
Total			
Revenue bonds:			
Water	Dec 19, 2000	1.75% *	\$ 5,976,000
Water	Jul 12, 2013	1.75 **	2,432,000
Water	Sep 23, 2016	1.75 **	577,000
Sewer	Dec 19, 2000	1.75 *	5,372,000
Sewer	Nov 4, 2016	1.75 **	3,435,000
Total			
Loan agreement:			
Snow Plows/Bobcat	Jul 30, 2014	2.00%	\$ 400,000
Lease-purchase agreement:			
Pierce Fire Truck	Dec 21, 2015	2.00%	\$ 700,000

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

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

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
2,475,000	-	2,475,000	-	100,710
6,200,000	-	6,200,000	-	317,778
5,250,000	-	280,000	4,970,000	111,031
435,000	-	215,000	220,000	8,700
8,180,000	-	330,000	7,850,000	247,575
5,545,000	-	200,000	5,345,000	141,653
-	5,410,000	-	5,410,000	-
\$ 28,085,000	5,410,000	9,700,000	23,795,000	927,447
1,905,000	-	355,000	1,550,000	33,337
1,838,680	-	92,019	1,746,661	34,461
-	432,120	24,000	408,120	2,121
1,792,000	-	329,000	1,463,000	31,360
-	2,638,729	141,000	2,497,729	17,616
\$ 5,535,680	3,070,849	941,019	7,665,510	118,895
239,935	-	78,378	161,557	4,867
554,320	-	134,433	419,887	11,247

City of Grimes

Bond Maturities

June 30, 2017

General Obligation Bonds										
Year Ending June 30,	Corporate Purpose Issued Dec 1, 2012		Corporate Purpose Issued Apr 15, 2013		Corporate Purpose Issued June 25, 2015		Corporate Purpose Issued May 25, 2016			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2018	2.00%	\$ 285,000	2.00%	\$ 220,000	3.00%	\$ 340,000	2.00%	\$ 590,000		
2019	2.00	290,000	-	-	3.00	350,000	2.00	600,000		
2020	2.00	300,000	-	-	3.00	360,000	3.00	625,000		
2021	2.00	305,000	-	-	3.00	370,000	3.00	640,000		
2022	2.00	310,000	-	-	2.50	380,000	3.00	650,000		
2023	2.00	315,000	-	-	2.50	390,000	2.00	230,000		
2024	2.00	325,000	-	-	2.75	400,000	2.00	235,000		
2025	2.00	330,000	-	-	2.75	410,000	2.00	240,000		
2026	2.13	335,000	-	-	3.00	420,000	2.00	245,000		
2027	2.00	345,000	-	-	3.00	435,000	2.00	250,000		
2028	2.00	350,000	-	-	3.00	450,000	2.13	250,000		
2029	2.13	355,000	-	-	3.00	460,000	2.25	260,000		
2030	2.38	365,000	-	-	3.00	475,000	2.38	265,000		
2031	2.50	375,000	-	-	3.00	490,000	2.50	265,000		
2032	2.50	385,000	-	-	3.00	510,000	-	-		
2033	-	-	-	-	3.50	520,000	-	-		
2034	-	-	-	-	3.50	535,000	-	-		
2035	-	-	-	-	3.50	555,000	-	-		
Total		<u>\$ 4,970,000</u>		<u>\$ 220,000</u>		<u>\$ 7,850,000</u>		<u>\$ 5,345,000</u>		

See accompanying independent auditor's report.

Corporate Purpose			Revenue Bonds					
Issued May 3, 2017			Water		Sewer			
Interest			Issued Dec 19, 2000		Issued Dec 19, 2000			
Rates	Amount	Total	Interest Rates	Total	Interest Rates	Amount	Total	
3.00%	\$ 685,000	2,120,000	1.75%	\$ 367,000	1.75%	\$ 343,000	710,000	
3.00	725,000	1,965,000	1.75	381,000	1.75	358,000	739,000	
3.00	750,000	2,035,000	1.75	394,000	1.75	373,000	767,000	
3.00	775,000	2,090,000	1.75	408,000	1.75	389,000	797,000	
3.00	800,000	2,140,000		-		-	-	
2.25	825,000	1,760,000		-		-	-	
2.00	850,000	1,810,000		-		-	-	
	-	980,000		-		-	-	
	-	1,000,000		-		-	-	
	-	1,030,000		-		-	-	
	-	1,050,000		-		-	-	
	-	1,075,000		-		-	-	
	-	1,105,000		-		-	-	
	-	1,130,000		-		-	-	
	-	895,000		-		-	-	
	-	520,000		-		-	-	
	-	535,000		-		-	-	
	-	555,000		-		-	-	
	<u>\$ 5,410,000</u>	<u>23,795,000</u>		<u>\$ 1,550,000</u>		<u>\$ 1,463,000</u>	<u>3,013,000</u>	

City of Grimes

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

For the Last Ten Years

	2017	2016	2015	2014
Receipts:				
Property tax	\$ 7,419,454	6,492,546	6,150,238	5,812,917
Tax increment financing	1,797,621	1,344,848	1,298,253	1,174,536
Other city tax	235,576	215,936	224,025	210,131
Licenses and permits	621,241	575,011	698,252	466,683
Use of money and property	135,996	192,312	71,657	72,145
Intergovernmental	7,769,602	1,952,540	1,828,242	1,131,826
Charges for service	760,861	686,458	595,965	615,911
Special assessments	127,336	182,091	161,553	153,437
Miscellaneous	84,301	109,654	102,384	93,372
Total	\$ 18,951,988	11,751,396	11,130,569	9,730,958
Disbursements:				
Operating:				
Public safety	\$ 3,322,060	2,969,314	3,077,667	2,280,626
Public works	2,045,727	1,734,554	3,875,949	1,893,484
Health and social services	-	-	-	-
Culture and recreation	1,189,625	1,117,152	1,512,321	1,175,528
Community and economic development	192,037	118,560	143,281	129,683
General government	844,506	817,689	1,044,050	687,525
Debt service	8,947,462	3,403,085	2,845,086	2,773,233
Capital projects	13,330,469	5,431,157	6,020,914	3,442,998
Total	\$ 29,871,886	15,591,511	18,519,268	12,383,077

See accompanying independent auditor's report.

2013	2012	2011	2010	2009	2008
5,384,022	5,145,434	5,033,717	4,461,334	3,805,022	3,239,293
1,335,445	1,161,927	1,060,037	812,070	881,205	966,128
204,179	243,855	226,812	215,732	197,810	198,987
423,560	345,021	261,512	349,221	184,396	427,871
67,607	77,028	146,295	91,697	282,917	311,866
1,283,467	2,193,161	4,219,426	1,594,655	560,122	582,316
437,434	355,207	291,711	247,272	269,886	252,863
199,663	190,504	273,936	189,244	60,230	37,859
99,578	90,807	512,549	1,067,568	1,715,428	1,678,958
<u>9,434,955</u>	<u>9,802,944</u>	<u>12,025,995</u>	<u>9,028,793</u>	<u>7,957,016</u>	<u>7,696,141</u>
1,771,301	1,792,889	1,342,355	1,267,021	1,126,024	1,066,345
1,401,187	2,264,122	1,461,193	1,421,463	1,660,313	1,045,823
-	5,809	-	-	-	-
869,581	893,848	937,497	738,238	778,958	575,730
122,300	122,548	114,011	112,859	160,916	141,481
655,158	534,360	521,971	609,524	577,086	497,589
3,734,868	3,666,018	2,150,932	1,631,804	1,585,293	1,834,602
2,683,365	5,094,990	6,624,078	7,150,402	4,089,799	4,379,280
<u>11,237,760</u>	<u>14,374,584</u>	<u>13,152,037</u>	<u>12,931,311</u>	<u>9,978,389</u>	<u>9,540,850</u>

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



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STATE OF IOWA

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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grimes, Iowa, as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 2, 2018. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings as item A, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Grimes' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2017 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Grimes' Responses to the Findings

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

Purpose of this Report

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Grimes during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State

February 2, 2018

City of Grimes
Schedule of Findings
Year ended June 30, 2017

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCY:

(A) Fire Department Debit Cards

Criteria – Internal controls over safeguarding assets constitute a process, effected by an entity’s governing body, management and other personnel designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from error or misappropriation. Such processes include establishing policies addressing proper asset use and supporting documentation.

Condition – The Fire Department has debit cards available for use by volunteers while on Department business. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

Cause – Officials have been unaware of the repercussions of allowing the use of debit cards.

Effect – Allowing the use of debit cards could result in unauthorized transactions and the opportunity for misappropriation.

Recommendation – The City Council should prohibit the use of debit cards for City purchases, including purchases by the Fire Department.

Response – The City will draft and enforce a policy that prohibits the use of debit cards for City purchases, including purchases by the Fire Department.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Grimes
Schedule of Findings
Year ended June 30, 2017

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amount budgeted in the community and economic development function. Also, disbursements in the capital projects function exceeded the amount budgeted prior to the budget amendment. 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 make every effort to amend the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

Conclusion – Response accepted.

- (2) Questionable Disbursements – In June 2014, the City approved Resolution No 06-2814, “A Resolution Establishing Policies for Expenditure of Funds for Public Purposes”. The policy states, “The City established the following activities for which tax revenues may be spent that would serve to recognize volunteers of the community, maintain employee morale, and promote the community and its growth. Therefore, the following are considered appropriate public purposes for the expenditure of tax revenue. Each expenditure shall be approved by the Mayor, City Administrator or the City Council.” The policy includes the following allowable “activities”:

- Plaques, awards and gifts for service
- Retirement gifts for city council, mayor or employee service over eight years in total amount not to exceed \$250
- Coffee and refreshments for meetings, training sessions, and open houses.
- Meals and refreshments during emergency situations and public meetings held during normal meal times.
- Meals and refreshments during management breakfast or luncheon meetings, council workshop meetings or special meetings during normal meal times.
- Meals and refreshments to improve and promote employee morale and celebrate employee successes, birthdays, etc. Such meals shall be open to all employees and shall not be held more than 6 times per year.
- Meals for employees, Board and Commission members, City Council member events, events promoting the city, or events in which the city has a membership such as but not limited to; CGED Annual Dinner, the MWA Annual Dinner, MIALG meetings, IMMI meeting, etc.
- Flowers and cards for employees, Boards and Commission members, City Council members, Mayor and their families and other persons as deemed appropriate. For example, births, funerals, weddings, birthdays, and similar family events.

City of Grimes

Schedule of Findings

Year ended June 30, 2017

- Travel by the City Council, Mayor, City Administrator, City Staff and Selected City Representatives to promote the City, to promote economic development, to attend training or conferences, for the GDM Partnership Annual D.C. trip, or similar events.
- For tips at breakfast or luncheon meetings when the time and service at the establishment warrants the service staff being paid more than 15%. This amount should not exceed \$12 or 20%, whichever is greater.

Pursuant to Article III, Section 31 of the Iowa Constitution, public funds may only be spent for the public benefit. Also, an Attorney General's Opinion dated April 25, 1979 discusses public purpose and states, in part, it is possible for certain expenditures to meet the test of serving a public purpose, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

During the fiscal year, we noted two payments totaling \$912 each for food for a staff lunch and a Christmas lunch for staff. While the City's policy allows these types of disbursements and documents the benefit to the employee as "employee morale", the policy does not document how the public benefits from these disbursements. The policy also allows flowers and retirement gifts for employees but does not document how the public benefits from these disbursements. In addition, the policy does not establish dollar limits on the meal purchases.

Recommendation – The City Council should determine and document how the public benefits from these disbursements before authorizing any further payments. In addition, the City should establish dollar limits on meal purchases.

Response – The Resolution providing for public purpose use of funds will be better defined or amended to more specifically address concerns about how the use of funds benefits the public and provide stricter limits on meal purchases.

Conclusion – Response accepted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

City of Grimes

Schedule of Findings

Year ended June 30, 2017

- (8) Water and Sewer Revenue Bonds – No instances of non-compliance with the provisions of the revenue bond resolutions were noted.
- (9) Annual Urban Renewal Report – No instances of non-compliance with the Annual Urban Renewal Report were noted.
- (10) Veteran Discount – Chapter 388.6 of the Code of Iowa states, “A city utility or combined utility system may not provide use or service at a discriminatory rate, except to the City or its agencies, as provided in Chapter 384.91.” Veteran discounts were provided on garbage fees by the City Council.

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

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

Conclusion – Response accepted.

- (11) Termination Payouts – Personnel actions subsequent to year end were identified. The employment contract for the City Administrator expired December 31, 2017. A decision was made to not renew the contract in December 2017. Per the contract, if the City does not renew the employment contract and does not give the employee at least 90 days written notice prior to the expiration of the contract, the employee shall be entitled to receive 365 days severance pay in addition to all the benefits. If proper written notice is provided to not renew the contract, the employee will be paid 3 months salary. Since 90 days written notice of the decision to not renew the contract was not given, the City incurred additional costs. The total amount paid in relation to this contract is approximately \$198,000, which includes salary, employer share of FICA and IPERS, insurance premiums, annual group membership fees and remaining vacation for calendar years 2017 and 2018.

In addition, another employee was terminated in December 2017. This employee received a payout for unused vacation time and 6 weeks salary. According to the City’s policy on terminations, the employee should have been paid regular wages for all hours worked up to the time of termination which had not been paid and a lump sum payout of accrued but unused vacation time. The total amount paid to the employee for 6 weeks salary was \$7,344.

The public purpose of these actions was not documented. We are unable to determine how the taxpayers’ best interests were served by these actions.

Recommendation – The City Council should determine and document the public purpose served by these disbursements, keeping in mind decisions should be in the best interest of the taxpayers. In addition, the City should provide termination payouts in accordance with City policy.

City of Grimes

Schedule of Findings

Year ended June 30, 2017

Response – This note indicates that the State Auditor was not supplied information regarding the public purpose for the payments to the City Administrator. The public purpose was explained to the State Auditor at the time of a requested conference at City Hall on January 19, 2018, and documented in writing in the City Council Resolution and Notice of Non-Renewal, a copy of which was promptly supplied as requested to the State Auditor. Although this information should be included in an audit for the City for the fiscal year ending June 30, 2018, the City has not been supplied with a valid explanation as to why this information is being included in an Audit for the year ending June 30, 2017, or why this information is now being used as an excuse to further delay producing a final audit.

Despite repeated requests, the City has also not been supplied with a valid explanation by the State Auditor as to why the Audit for Fiscal Year 2016-2017 was not completed earlier as required by Iowa law. The field work for the audit was commenced on September 11, 2017, and the field work at the City was finished within two weeks. Four months have passed since the field work was done, and to date, no reason has been given as to why the final audit was not supplied by law to the City no later than October 30, 2017. The City is mandated by state law to timely prepare and approve a budget for the upcoming fiscal year, and has no current audit to use in preparing its budget.

Conclusion – The City response includes several erroneous statements.

While the City did provide Resolution No. 12-0617, this resolution does not explain the public purpose of spending approximately \$198,000 to not renew the employment agreement between the City of Grimes and the City Administrator.

As explained to the City on January 19, 2018, auditors are required to disclose significant subsequent events in audited financial statements when they become aware of events occurring after the end of the fiscal year.

The response to this comment indicates the audit for the fiscal year ended June 30, 2017 was required by Iowa law to be completed earlier. This is not factual. Section 11.6(6) of the Code of Iowa includes the requirement for completing audits of local governments, which includes cities. The requirement is: “An audit required by this section shall be completed within nine months following the end of the fiscal year that is subject to the audit”. Accordingly, the legal due date for the audit is March 31, 2018.

Even so, the City has not made repeated requests to receive the audit. The first request received from the City was on January 23, 2018. At that time, we asked for certain information which would allow for completion. The response to this comment was received on January 30, 2018 and the required representation letter was received March 22, 2018.

The City’s Management’s Discussion and Analysis was received on November 3, 2017. Responses to other comments were received on November 22, 2017.

The City should provide termination payouts in accordance with City policy or document why the exception is being granted.

City of Grimes

Staff

This audit was performed by:

Jennifer L. Wall, CPA, Manager
Nicole L. Roethlisberger, Senior Auditor
Erin K. Howland, Assistant Auditor
Libby C. Lamfers, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State