

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

February 12, 2016

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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 \$25,076,137 for the year ended June 30, 2015, a 61.9% increase over the prior year. The receipts included \$6,374,263 in property tax, \$1,298,253 from tax increment financing, \$83,937 from commercial/industrial tax replacement, \$6,277,056 from charges for service, \$1,094,544 from operating grants, contributions and restricted interest, \$850,990 from capital grants, contributions and restricted interest, \$8,682,736 of general obligation bond proceeds, \$400,000 of loan proceeds and \$14,358 from unrestricted interest on investments.

Disbursements for the year ended June 30, 2015 totaled \$21,800,102, a 26.2% increase over the prior year, and included \$6,020,914 for capital projects, \$3,875,949 for public works and \$3,077,667 for public safety. Also, disbursements for business type activities totaled \$3,280,835. The increase in disbursements is due primarily to an increase in capital projects because the City started new street improvement projects during the year ended June 30, 2015.

A copy of the audit report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1520-0719-B00F.pdf>.

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CITY OF GRIMES

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2015

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City of Grimes

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tom Armstrong	Mayor	Jan 2018
Tami Evans	Mayor Pro tem	Jan 2016
Craig Patterson	Council Member	Jan 2016
Jill Altringer	Council Member	Jan 2018
Doug Bickford	Council Member	Jan 2018
Ty Blackford	Council Member	Jan 2018
Kelley Brown	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, 2015, 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, 2015, 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.

Emphasis of a Matter

As discussed in Note 4, the City of Grimes adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. 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, 2014 (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 6, including the Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 7 through 26 and 46 through 53, 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 January 12, 2016 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 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 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


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 12, 2016

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, 2015. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

- The governmental activities property tax and tax increment financing receipts increased \$474,932 from fiscal year 2014 to fiscal year 2015. This is the result of the regular taxable valuation increasing from \$435,768,920 to \$459,293,836. Over the past eight years, the regular taxable valuation has grown from \$219,283,831 to \$459,293,836, resulting in an increase of \$240,010,005, or 109.5%.

Receipts and transfers of the City's governmental activities increased \$10,462,349 from fiscal year 2014 to fiscal year 2015. An \$8,500,000 bond issue in 2015 accounts for most of this increase. Excluding the bond and loan proceeds and transfers, receipts increased \$1,399,613, or 14.4%. Fiscal year 2015 continued to be very busy for the City as there was a spike in building permits and plat development as the economy continues to grow. The ASR (Aquifer Storage Recovery Well) is nearing completion, which delayed the need for the construction of a new water plant by 3 years. Other projects completed or underway in 2015 are the SE 19th reconstruction expanding to a 4 lane, boulevard road, signals at the Dallas Center-Grimes High School (DC-GHS), Glenstone and North Pointe Parks and the Highway 44 Sanitary Sewer oversizing and parallel lines.

Building permit fees have increased almost 80% over the last three years, from \$351,924 in 2013 to \$631,773 in 2015. Water tapping fees are also a good indicator of an increase in buildings and development. They have increased from \$140,175 in 2013 to \$262,315 in 2015, an 87.1% increase. Of course, sewer tapping fees followed suit with an increase from \$210,273 to \$396,306, or 88.4%. Building development fees are more indicative of actual plat development and vary depending on the timing of the installation of street and utility infrastructure. Building development fees decreased \$38,406 from last year, but the three year overall increase was \$109,409, or 69.9%. 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.

Even during the downturn in building overall, commercial valuations continued to increase. Starting in fiscal year 2005, commercial valuations have grown over the last ten years, from \$76,457,880 to \$177,768,460. From 2014 to 2015, there was an increase of \$7,246,245 from \$170,522,215 to \$177,768,460, or 4.2%. Overall, commercial valuation has increased \$101,310,580, or 132.5%, over the last ten years. 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 36.6% of the City's taxable valuation.

The cash balance at June 30, 2015 increased \$3,276,034 to \$17,272,016. The proceeds from a \$8,500,000 bond issue were received in June. \$2,700,000 was disbursed from existing cash balances to purchase the new \$2 million Public Works facility and \$700,000 was disbursed for the new fire truck. In addition, SE 19th Street was completed and \$2,000,000 was disbursed for the ASR. The General Fund

balance decreased due to the \$2.7 million disbursed as explained above. The ending cash balances of the Debt Service Fund, the Capital Projects Fund and the Enterprise, Water and Sewer Funds increased.

Road use tax receipts have increased approximately 8% over the last three years, from \$789,686 to \$854,439. When the new 2010 Census numbers were certified, the City received a larger allocation of road use tax (RUT) funds. 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 \$96.00 per person for fiscal year 2014, \$97.50 for fiscal year 2015 and is expected to rise again to \$98.50 per person for fiscal year 2016. In addition, the City has proceeded with a Special Census with an anticipated population increase to around 11,000, which will greatly increase the City's RUT receipts.

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 the leasing of four rooms to the YMCA and the leasing and renovation of another three rooms for the combined use of a church or large group meeting room. The Grimes Historical Room was opened three years ago in the spring and was the result of an Eagle Scout project. One room has been set up as a batting cage and another for cycling. Hours for general use have been expanded and include having a person on staff during normal hours to alleviate the need for key card access in most situations. A more comprehensive use policy has been implemented, which gives all City residents two hours of free rental for most rooms for special occasions. This new programming and rental programs have accounted for \$907,073 in additional receipts over the prior eight years and \$156,907 in receipts for fiscal year 2015 alone.

Fire and rescue charges increased \$38,234, from \$131,973 to \$170,207, due to an increase in collections and a concerted effort to collect past due items. The County library tax subsidy from the Polk County Board of Supervisors increased \$5,080 although every year we are warned there could be a decrease, so this was a nice surprise.

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 \$6,136,191, or 49.6%, from fiscal year 2014 to fiscal year 2015. The net increase in disbursements, after eliminating the effects of capital projects and debt service, is an increase of \$3,486,422, from \$6,166,846 in fiscal year 2014 to \$9,653,268 in fiscal year 2015. Spending for the public safety function increased from \$2,280,626 to \$3,077,677, which was a \$797,041 increase. Part of the increase was due to an increase of \$106,850 in the contract with the Polk County Sheriff. A new contract approved in March of 2014 calls for an increase in hours as well as an increase in City participation. The first year of the contract added additional hours at a total cost of \$767,761. The second year will add an additional 40 hours of coverage at a total cost of \$929,144 and the third year will cost \$982,677 as 93.5% of the total cost to the Sheriff's Department will be paid by the City. The City also hired an additional

full time paramedic/fire fighter in fiscal year 2015, increasing the current staff to five full time and an additional full time-equivalent paramedic/fire fighter to be on staff during the day. That, along with wage increases to meet the same level as the City of Johnston and an increase in part time hours accounts for an additional \$122,714. In fiscal year 2012, the new Johnston Public Safety Building was opened along NW 62nd/SE 19th Street. It is strategically located to serve areas in both Johnston and Grimes less readily accessible from the existing building locations. As part of a cooperative effort, the City hired two additional paramedic/firefighters to help staff this building. Engineering disbursements decreased because plat inspection infrastructure fees and general engineering fees decreased over \$180,000. One additional inspector was hired, increasing the building department staff to three. This increase was made to accommodate the increase in housing as well as the anticipated future development. The City is proud to be a partner in the Metro Home Improvement Program. This program is an amazing owner occupied rehabilitation improvement program with the purpose to preserve the existing affordable housing stock in the participating communities.

- Public works function disbursements increased \$1,982,465. The major increase between the two years is the purchase of a new Public Works building in 2015.
- Culture and recreation function disbursements increased \$336,793. Notable accomplishments in this area are the cemetery expansion project in fiscal year 2011 which added 704 lots to the existing cemetery, as well as paving, a gravel parking lot, seeding and a landscaping amenity. From an operational standpoint, the increase in mowing area and the need for more precise mowing and trimming accounted for a \$12,000 increase in this area. The Library increased almost \$400,000, mostly due to the Library expansion. The history of the Library remodel was originally the Library had hired an architect and was planning an expansion project with the ultimate build-out estimated at over \$11,000,000. The Library has been evaluated and it has been determined, based on the amount of circulation and the size of the City, the Library is significantly undersized. The first phase was to hire an architect who could propose plans to solve the space issue. The next phase was the hiring of consultants to complete a feasibility study of what realistically could be obtained through fund raising efforts before a bond issue is brought to a vote of the citizens. The feasibility study was completed and it was determined the current economic climate is still a little cautious when it comes to expending money for fundraising efforts, such as the Library expansion. The Library Board was given the task of developing a plan to remodel the existing space and make it more efficient, which is ultimately what they did. The project was awarded in late 2014 and is now complete. Park and recreation costs decreased slightly with a \$16,397 decrease. That being said, the budget is still over \$250,000 higher than two years ago because of the Glenstone and North Pointe Park projects budgeted to come out of the General Fund instead of the Capital Projects Fund. It is also exciting to note the first phase of the North Sports Complex project is now complete and the City Council is letting another phase for the North Sports Complex which will include a concession stand, batting cages, fencing, landscaping and trails.
- Community and economic development disbursements increased approximately \$13,600 from a total expenditure of \$129,683 to \$143,281. These are disbursements from the City to the Grimes Chamber and Economic Development Organization. They vary depending upon the needs of the organization. This last year, Hotel/Motel disbursements decreased \$3,184 and Des Moines Convention and Visitor's Bureau's payments increased \$126. Notable capital improvements over the last few years include: The conversion of the old Jordan well into an ASR, the

drilling of the new Jordan Well, the completion of the SE Main Street project, the Prairie sewer being extended to property being developed by R&R Realty Group on SE James Street and SE 37th, signals at the DC-G HS and Highway 44, the SE 19th Street project, the North Sports Complex project, the Highway 141 Sanitary Sewer project, improvements to Glenstone and North Pointe parks, complete remodeling of the old City Hall, new City Hall and Library and road overlay projects.

- No doubt, the water issue was the priority over the last four years. The drought of the summer of 2012 had long-lasting effects on the City's shallow wells. A water mitigation program was approved by the City Council in late 2012 as a proactive measure in the event the City would have to manage water usage in the summer of 2013. In addition, the project to build a new Jordan well at over 2,800 feet was awarded in late winter at an approximate cost of \$2,000,000. This new well would not be influenced by drought conditions. As stated above, the ASR testing also was delayed because the City didn't want to use shallow well water for this use. An emergency connection with Xenia was also part of the original plan. However, the heavy rains in the spring of 2013 delayed the need to pursue this option. As the summer of 2013 progressed, the need to enter into Stage 1 of the Water Mitigation plan became apparent because the new water plant could not pump enough to keep up with the demand. To supplement the water supply, the old Jordan well plant was put back into service. In August of 2013, the levels of the shallow wells had dropped to the point the City was put into Stage II of the Water Mitigation plan. In mid-September of 2013, the emergency connection to Xenia was established and the City dropped back into Stage I of the plan. Since that time, the Jordan well has been drilled and a temporary pump was installed. The ASR project was delayed so the old water plant on E 1st Street could be used to supplement the water supply if necessary. The spring of 2014 showed the levels in the shallow wells were not recovering as expected with the spring rains which caused some concern. In addition, there were a few days in June and July where the demand exceeded the output of the plant. At that time, a request was sent out to enter into Stage 1 and to exercise prudence when using water. Furthermore, the City sent out a Request for Proposals (RFP's) for the operation of the water and wastewater plants. A committee was formed to review the RFP's and interview potential management companies. In the end, PeopleService, which had operated the plants for 18 years, was not chosen and U.S. Water Services Corporation (USW) was chosen and started July 1, 2015. The ASR continues to be under construction with pump and testing problems and just recently the City Council approved a trial Reverse Osmosis system to determine if this process can effectively be used to remove the hardness in the water.
- General government function disbursements increased approximately \$356,525 in fiscal year 2015. Most of this increase is the result of the remodels to the new City Hall and the old City Hall as well as paying for the Special Census. In June 2015, the City Council passed a \$8,500,000 bond issue to keep investing in and improving the City's infrastructure.
- The City's governmental activities total cash basis net position increased approximately 22%, or \$2,114,039, from June 30, 2014 to June 30, 2015. A majority of this increase can be accounted for by the \$8,500,000 million bond issue approved in June of 2015. However, \$2.7 million was disbursed for the Public Works building and the new fire truck which, along with the expenditure of \$6.0 million of bond proceeds on the SE 19th Street project, accounts for the increase in expenditures. The City has approved three bond issues in the last six 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).

The General Fund cash balance decreased \$1,689,735. The Special Revenue, Road Use Tax Fund cash balance increased \$33,924. The Debt Service Fund cash balance increased \$236,637 because proceeds accumulating from developer assessments are not sufficient for prepayment on the bond at this time and proceeds from the completion of the SE 37th Street assessment project. Build America Bond interest is credited to the Debt Service Fund. The Capital Projects Fund balance increased \$3,489,781, mostly due to the \$8,500,000 bond issue and money being disbursed on those projects as noted above. The other nonmajor governmental fund cash balances increased \$26,265, mostly due to an increase in employee benefits property tax receipts and conservative spending and the Special Revenue, Tax Increment Financing Fund balance increased \$17,167. 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. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

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.

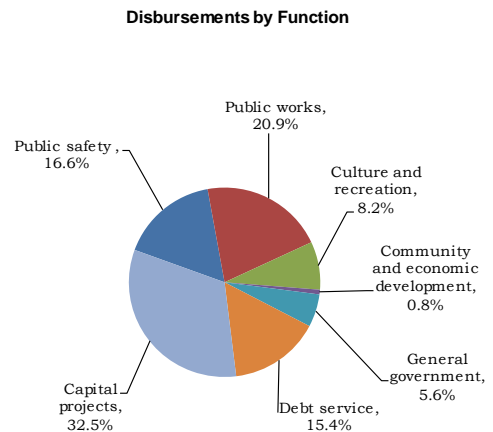
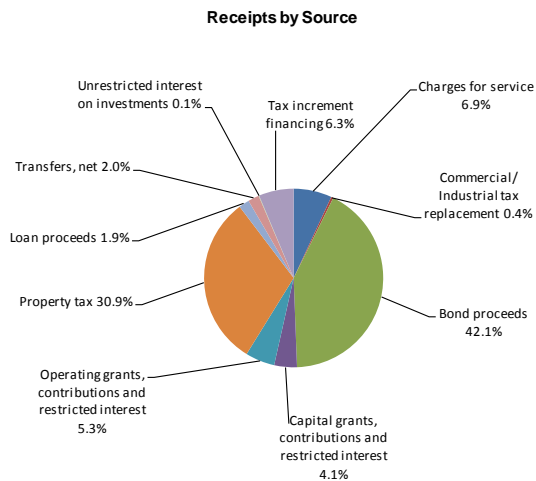
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City, and the Solid Waste and Storm Water 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 increased over last year, from approximately \$9.808 million to approximately \$11.923 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,	
	2015	2014
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 1,414,368	1,196,744
Operating grants, contributions and restricted interest	1,094,544	1,058,877
Capital grants, contributions and restricted interest	850,990	261,666
General receipts:		
Property tax	6,374,263	6,023,048
Tax increment financing	1,298,253	1,174,536
Commercial/industrial tax replacement	83,937	-
Unrestricted interest on investments	14,216	16,087
Bond proceeds	8,682,736	-
Loan proceeds	400,000	-
Transfers, net	420,000	440,000
Total receipts and transfers	<u>20,633,307</u>	<u>10,170,958</u>
Disbursements:		
Public safety	3,077,667	2,280,626
Public works	3,875,949	1,893,484
Culture and recreation	1,512,321	1,175,528
Community and economic development	143,281	129,683
General government	1,044,050	687,525
Debt service	2,845,086	2,773,233
Capital projects	6,020,914	3,442,998
Total disbursements	<u>18,519,268</u>	<u>12,383,077</u>
Change in cash basis net position	2,114,039	(2,212,119)
Cash basis net position beginning of year	<u>9,808,468</u>	<u>12,020,587</u>
Cash basis net position end of year	<u>\$ 11,922,507</u>	<u>9,808,468</u>



The City's total receipts and transfers for governmental activities increased 102.9%, or \$10,462,349. The City received proceeds from a \$8.5 million bond issue in late June of fiscal year 2015. The total cost of all programs and services increased 49.55%, or \$6,136,191. The majority of this increase is accounted for in capital projects disbursements. A significant increase in tax receipts resulted from an increase in regular taxable valuation, from \$435,768,920 to \$459,293,836. Regular taxable valuation increased 5.4%, or \$23,524,916. Property tax receipts, not including TIF collections or other city tax, increased \$351,215. TIF collections increased \$123,717.

The City's property tax rates for fiscal year 2015 increased ever so slightly, with a tax rate of \$12.91374 per \$1,000 of taxable valuation for fiscal year 2015 versus \$12.91302 per \$1,000 of taxable valuation for fiscal year 2014. The rollback percentage increased from 52.8166% in 2014 to 54.4002% in 2015. Residential/commercial property tax decreased from 100% in 2014 to 95% in 2015. The residential rollback percentage is projected to increase again for fiscal year 2016 to 55.7335% and the commercial/industrial tax will decrease another 5% to 90%. The tax rate, coupled with the increase in the rollback, has the result of increasing the net city tax paid by the homeowner of a \$150,000 home by \$71.77. 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 \$17.85093 in fiscal year 2015 to \$17.95314 in 2016. Other tax rate increases per \$1,000 of taxable valuation include: County up \$.101, Hospital up \$.19, Regional Transit up \$.065 and Area XI College up \$.018.

The cost of all governmental activities this year was approximately \$18.519 million compared to approximately \$12.383 million last year. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 28-29, the amount taxpayers ultimately financed for these activities was only \$15.159 million because \$1,414,368 of the cost was paid by those directly benefiting from the programs. \$1,094,544 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 \$850,990 were received. Overall, the City's governmental activities cash basis net position increased from \$9.808 million at June 30, 2014 to \$11.922 million at June 30, 2015, principally due to the timing of the \$8.5 million bond issue in late June of 2015 and spending the proceeds from the previous bond issue on capital projects in fiscal 2015. The City paid for the remaining "public benefit" portion of governmental activities with \$7.673 million in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements, \$474,932 of which was new tax revenue.

Changes in Cash Basis Net Position of Business Type Activities		
	Year ended June 30,	
	2015	2014
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 2,437,575	2,210,749
Sewer	1,684,498	1,534,680
Solid waste	324,701	293,769
Storm water	415,914	377,616
General receipts:		
Revenue bond proceeds	-	1,340,359
Unrestricted interest on investments	142	297
Total receipts	<u>4,862,830</u>	<u>5,757,470</u>
Disbursements and transfers:		
Water	1,948,567	3,126,688
Sewer	809,451	1,346,815
Solid waste	400,057	371,460
Storm water	122,760	49,466
Transfers, net	420,000	440,000
Total disbursements and transfers	<u>3,700,835</u>	<u>5,334,429</u>
Change in cash basis net position	1,161,995	423,041
Cash basis net position beginning of year	<u>4,187,514</u>	<u>3,764,473</u>
Cash basis net position end of year	<u>\$ 5,349,509</u>	<u>4,187,514</u>

Total business type activities receipts for fiscal year 2015 were approximately \$4.863 million compared to approximately \$5.757 million last year. This decrease was due primarily to the City receiving revenue bond proceeds during fiscal year 2014.

The cash balance for business type activities at June 30, 2015 increased \$1,161,995 over the prior year. Receipts decreased 15.5% and disbursements and transfers decreased 30.62%. Thus, the overall increase in net position totals \$1,585,036 over the past two years. This increase resulted from the increase in water receipts, an increase in sewer receipts and increases in water and sewer tapping fees from new construction, as well as the new storm water utility fee. Total disbursements and net transfers for the fiscal year decreased from approximately \$5.334 million last year to approximately \$3.701 million for fiscal year 2015. This was a decrease of \$1,633,594, or 30.6%.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Grimes completed the year, its governmental funds reported a combined fund balance of \$11,922,507, an increase of \$2,114,039 from last year's total of \$9,808,468. 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 decreased \$1,689,735 from the prior year to \$2,747,963. This decrease was largely due to the purchase of the new Public Works building for \$2,000,000. General Fund receipts increased \$525,118 and disbursements increased \$3,684,721. 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 \$33,924 from June 30, 2014 to June 30, 2015. 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 95% of their valuation versus residential valuation which is taxed at 54.4002% for fiscal year 2015. 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, Sports Complex 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 \$61,961, an increase of \$17,167 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 \$1,298,253 as compared to \$1,174,536 in fiscal year 2014.

- The Debt Service Fund cash balance increased to \$2,801,234 during fiscal year 2015 from \$2,564,597. The increases are due to interest received from the Build American Bonds and the receipt of developer reimbursement proceeds from the South 19th Street and Little Beaver assessment projects, as well as the 54th Ave. Road, the South 6th Street, the SE 37th Street and the East 1st Street assessment projects. The developer reimbursement proceeds will be held until the bonds can be called.

- The Capital Projects Fund cash balance increased from \$1,846,828 to \$5,336,609 in fiscal year 2015. The proceeds from the \$8.5 million bond issue account for this increase and the remaining can be explained by the increase in disbursements of \$2,577,916 from 2014 to 2015. The \$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).

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- In fiscal year 2015, the Enterprise, Water Fund cash balance increased \$289,150 to \$2,177,558 as the population continued to increase. This balance allowed for \$200,000 to be transferred to the Capital Projects Fund. There was a decrease in disbursements of \$1,178,121 from fiscal year 2014 to fiscal year 2015. In 2014, a State Revolving Fund Loan reimbursed the water capital account for drilling the Jordan well.
- In fiscal year 2015, the Enterprise, Sewer Fund cash balance increased \$675,047, from \$1,923,437 to \$2,598,484. Receipts increased \$149,818 and disbursements decreased \$537,364. In 2014, a loan was paid off early to avoid the 6% interest that was being charged as a result of a development agreement for a lift station. This balance also allowed for \$200,000 to be transferred to the Capital Projects Fund. Again, similar to the Water Fund, Sewer Fund receipts increased due to the increase in housing and new users.
- Although these are nonmajor funds, 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. \$334,701 was received in fiscal year 2015 for solid waste and \$415,914 for storm water.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The first amendment was approved on March 10, 2015. This amendment provided for an overall increase in budgeted receipts and other financing sources of \$3,407,725. Specifically the increases were for licenses and permits of \$60,199 because of the increase in building permits, \$19,900 for money and property, \$2,026,000 for intergovernmental because of expected reimbursements from IDOT for the SE 19th Street Project, \$19,500 for miscellaneous and \$1,340,025 for other financing sources for the SRF reimbursement for the Jordan Well. Charges for services decreased \$57,900 as revenues were coming in lower than projected. Budgeted disbursements for public safety and public works disbursements decreased \$144,728 and \$109,200, respectively. Culture and recreation budgeted disbursements increased \$418,655 because of the timing of the Glenstone and North Pointe park projects. Debt service budgeted disbursements increased \$3,073,583 due to the purchase of the new maintenance building for public works for \$2,000,000 and \$700,000 for the new fire truck. Capital projects budgeted disbursements also increased \$2,000,000 because of the timing of the SE 19th Street Project and the ASR well. The timing of capital projects is typically hard to plan because of the timing of soliciting bids and the actual construction itself which can have unanticipated delays. The City traditionally amends the budget in the last quarter of the fiscal year because the exact timing and payment of capital improvement projects is seldom known at the time the original City budget is certified in March of the previous year.

The second budget amendment was approved on June 23, 2015. This amendment was mainly held to account for the \$8.5 million of bond proceeds received at the end of June, 2015. Other minor adjustments were made that accounted for a decrease of \$118,220 in budgeted receipts across the entire budget as well as a decrease of \$280,600 in budgeted disbursements.

When all was said and done and the final numbers were calculated as of June 30, 2015, the variations between what was budgeted and what was actually received or disbursed are as follows. First of all, the culture and recreation function had another great year. The function was \$116,626 under budget. Park improvements for Glenstone and North Point were over budget but the remaining park budget, including fertilizer and seeding, personnel, Hotel/Park and Cemetery, were under budget. Trees are also being monitored for the Emerald Ash Borer. This could have a large impact on the budget to mitigate the damage and replant with new trees. The expansion of programming for the overall park and recreation system has been phenomenal, as well as the interest in youth and adult programs. Gym space is once again an issue as more and more people are interested in indoor sports in the colder months when being outside is not as desirable. The general government function was \$97,791 less than budgeted. Personnel costs were approximately \$42,000 less than budgeted for health insurance cost and the cost for a special census was about \$54,000 less than anticipated. The debt service function was under budget by \$2,991,684. However, the disbursements were recorded in the public safety and public works functions, causing them to exceed the budget by \$461,134 and \$1,997,149, respectively. The cause was a result of a purchase of a fire truck recorded in the public safety function and two snow plows and the purchase of a Public Works building recorded in the public works function. The capital project function was under budget by \$1,104,086 as a result of projects which were not started in fiscal year 2015 as anticipated.

The Special Revenue, Road Use Tax Fund also disbursed about \$163,000 less than what was budgeted. Road use tax funds also account for some of the contracted snow removal costs and smaller street projects. The balances are carried over from year to year to facilitate larger projects when necessary. The capital projects function was under budget by \$1.104 million. This was mainly due to the timing of the ASR, SE 19th Street and the Highway 141 Sanitary Sewer projects. Storm sewer and park systems didn't expend their capital budgets as well. The business type activities function, i.e., water, sewer, solid waste and storm water, was \$529,028 under budget. The Water Department accounted for \$233,311 of this variance. Lime, chemicals and operations, meters, contract overages, deposits and miscellaneous account for this. The sewer utility accounted for \$282,034 of this variance. Sewer tapping fees also came in \$100,000 under budget due to a proposed developer agreement payoff which was paid off in 2014. Storm water was also under budget by \$12,240. Overall, spending was \$2,423,221 less than the final budgeted amounts.

The budget to year-end receipts was also reviewed and the results are as follows. There always seems to be a little variation in property tax budgeted versus those received because of the timing of the payments and the actual payment of property tax. This accounts for the difference of \$133,572. Obviously, if someone doesn't pay their property tax, the City doesn't receive them, at least until they are finally paid in one manner or another. Franchise tax, mobile home tax, utility replacement and hotel/motel tax all vary depending on the actual underlying receipts for those services. TIF came in at \$17,167 over budget. Other city tax was down \$108,846 because the proceeds from the excise tax are receipted in and split in the other property tax categories. Licenses and permits were over budget by \$106,228 as more permits were issued in fiscal year 2015. Intergovernmental receipts were \$1,158,682 under budget due to the timing of the proceeds from IDOT for the SE 19th Street project. Charges for service was \$96,553 over budget, mostly because water fees were underestimated and came in at \$122,925 over budget as well as sewer and storm water and parks. Building permit fees, garbage and fire calls were overestimated. Special assessments were \$61,553 more than budgeted due to the timing of capital projects and when the developers pay their portion of the assessments. Road development fees are contingent upon the timing of projects as well. Miscellaneous

receipts were \$31,073 more than budgeted. This was received from liquor payments, miscellaneous sales, refunds, cemetery lot sales, ticket fines, state assistance, fire auxiliary and library fees. Overall, the City received \$938,804 less than budgeted. However, the public safety function disbursed \$461,134 more than the final budgeted amount, mainly due to the purchase of the fire truck which was approximately \$626,000. The public works function was also over budget by \$1,997,149. The purchase of the Public Works building was the main reason the disbursements exceeded the budget.

DEBT ADMINISTRATION

At June 30, 2015, the City had approximately \$30.431 million of bonds and other long-term debt outstanding compared to approximately \$24.163 million at June 30, 2014, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2015	2014
General obligation bonds	\$ 24,610	17,805
Revenue bonds	5,504	6,238
Loan agreements	317	49
Lease-purchase agreements	-	71
Total	\$ 30,431	24,163

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 and \$1,072,175 at June 30, 2015. 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 Dr (\$275,000), NE Main (\$2,200,000) and SE 37th (\$521,836).

The City's bond rating was last reevaluated in May of 2015. The end result was continued great news for the City consistent with the original upgrade back in 2012 when the City was upgraded from A1 to Aa3. As reported by Moody's, "Moody's assigns Aa3 to Grimes' (IA) \$8.5M GO Bonds, Ser. 2015."

Moody's Investors Service has assigned an Aa3 rating to the City's \$8.5 million General Obligation (GO) Corporate Purpose Bonds, Series 2015. Concurrently, Moody's maintains its Aa3 rating on the City's outstanding general obligation unlimited tax (GOULT) debt. The City will have \$24.6 million in GOULT debt outstanding after the current sale.

SUMMARY RATING RATIONALE

The Aa3 rating reflects the City's rapidly growing tax base favorably located within the Des Moines (Aa2 stable) metropolitan area; above average socioeconomic indices; healthy financial profile; elevated debt profile and modest pension liabilities.

OUTLOOK

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

WHAT COULD MAKE THE RATING GO UP

- Continued expansion of the City's tax base
- Growth in operating fund reserve levels
- Moderation of the City's debt burden

WHAT COULD MAKE THE RATING GO DOWN

- Depreciation of the City's tax base
- Reduction of operating fund reserves below that of similarly rated entities
- Material growth of the City's debt burden

STRENGTHS

- Rapidly growing tax base favorably located within the Des Moines metropolitan area
- Above average socioeconomic indices
- Healthy financial profile characterized by ample operating reserve levels and moderate revenue raising flexibility

CHALLENGE

- Elevated debt profile

RECENT DEVELOPMENTS

Recent developments have been incorporated into the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: RAPIDLY GROWING TAX BASE LOCATED WITHIN DES MOINES METROPOLITAN AREA

We expect the City's tax base will experience continued growth into the medium-term due to its favorable location within the Des Moines metropolitan area. The City of Grimes 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 \$847 million tax base is primarily residential and has grown at a rapid average annual rate of 5.3% over the past five years. The city's population increased 61.7% to 8,246 between 2000 and 2010, mirroring similarly rapid population increases in recent decades. The City is bordered to the north and west by unincorporated land available for annexation. While development within the City continued throughout the recent recession, building permit activity accelerated significantly in 2014. Residential and commercial building permits totaled 356 and were valued at \$121 million in calendar year 2014. Five years prior in 2009, building permits totaled 150 and were valued at \$41 million. Although building permit activity in 2014

represented historic highs for the City, development is expected to remain strong in 2015. 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 is somewhat concentrated as the top ten taxpayers accounted for 14% of 2013 taxable valuations. The concentration will likely be reduced over the medium-term as tax base expansion continues. The largest taxpayer, Mid American Energy, represents 2.5% of the City's 2013 taxable valuation and operations are reportedly stable. Resident income levels exceed that of the nation, as median family income is estimated at 132% of the nation. While employment opportunities exist within the City, residents benefit from easy access to numerous employment centers located within the metropolitan area. As of March 2015, the county unemployment rate of 4.1% approximates the state's figure and remains well below the national rate of 5.6%, over that same period.

FINANCIAL OPERATIONS AND RESERVES: FINANCIAL PROFILE EXPECTED TO REMAIN STABLE

The City's financial profile is expected to remain healthy, despite a planned reserve draw in fiscal 2015, due to prudent management and strong revenue performance. The City has recorded six General Fund operating surpluses in as many years dating back to fiscal 2009. In fiscal 2014, the City recorded an operating fund (combined General and Debt Service funds) surplus of \$537,000, which increased available operating reserves to \$7.0 million and a very strong 80% of operating fund revenues. Operating fund reserves include \$4.4 million in General Fund reserves and \$2.6 million within the city's Debt Service Fund. Reserves within the City's Debt Service Fund are restricted for the retirement of outstanding debt. Five years prior at the close of fiscal 2009, the City held available operating reserves of \$3.6 million and a still sound 66% of operating fund revenues. The operating surplus in fiscal 2014 was a result of conservative budgeting practices and strong property tax and permit revenue performance. The City has budgeted for a \$2.8 million reserve draw in fiscal 2015 for one-time capital purchases including a fire engine, land, and the renovation of existing city buildings. Favorably, the General Fund will be reimbursed the entire amount over the next three fiscal years from bond proceeds and the Road Use Tax Fund. The City has passed a balanced budget in fiscal 2016, and notes that conservative revenue assumptions will likely lead to surplus operations.

Property taxes are the City's primary revenue source, accounting for approximately 60% of operating fund revenues in fiscal 2014. Public safety comprises the largest portion of operating fund expenditures, accounting for 20% of disbursements. Grimes contracts with Polk County for law enforcement services. Grimes levies 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; although management notes that the City has approximately \$372,000 of flexibility under the employee benefits levy. In addition to 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

Available liquidity has increased steadily within City operating funds in recent years. As of fiscal 2014, City operating funds held available liquidity of \$7.0 million and a healthy 80% of operating revenues. Five years prior, at the close of fiscal 2009, the City held unrestricted liquidity of \$3.6 million and a still ample 66% of operating fund revenues. Aside from the draw in fiscal 2015, management anticipates maintaining similar levels of liquidity over the medium-term.

DEBT AND PENSION LIABILITIES: ELEVATED DEBT PROFILE WILL REMAIN MANAGEABLE

The City's elevated debt profile will likely remain manageable due to rapid amortization of existing debt and limited plans for additional debt over the near-term. At 2.9% of full value and 2.8 times operating fund revenues, the City's debt burden is above average. Debt service costs accounted for an above average 34% of operating fund expenditures in fiscal 2014. Aside from state revolving fund loans, paid from water and sewer enterprise revenues, the City has no near-term debt plans.

Debt Structure

All of the City's debt is fixed rate. Principal amortization is above average as 70% of principal is set 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 2014 is \$4.3 million, equivalent to 0.5% of full valuation and 0.51 times operating revenue. The ANPL is based upon our allocation of the reported unfunded liabilities of one multi-employer 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, 2014. The City's fiscal 2014 contribution to the plans was \$154,000, or 2% of operating revenues.

MANAGEMENT AND GOVERNANCE: VERY STRONG INSTITUTIONAL FRAMEWORK

Iowa cities have an institutional framework score of 'Aaa' or very strong. Cities have strong revenue raising capability, despite a property tax cap on general and emergency levies, due to an unlimited trust and agency levy and tort levy as well as several other limited, special purpose levies or fees. The majority of cities' revenues come from property taxes which are predictable. Expenditures are also largely predictable, and cities have the ability to reduce expenditures as needed. Management utilizes a five-year capital plan and conservatively budgets for operating fund revenues and expenditures.

KEY STATISTICS

- 2014 Full valuation: \$847 million
- Estimated full value per capita: \$102,000
- 2008-2012 Median Family Income as a % of the US: 132%
- 2014 Operating Fund Balance as a % of Revenues: 80.3%
- Five-Year Dollar Change in Fund Balance as % of Revenues: 38.9%
- 2014 Cash Balance as a % of Revenues: 80.3%
- Five-Year Dollar Change in Cash Balance as % of Revenues: 38.9%
- Institutional Framework: Aaa
- Operating History (Five-Year Average of Operating Revenues/Operating Expenditures): 1.03x
- Net Direct Debt/Full Value: 2.9%
- Net Direct Debt/Operating Revenues: 2.8x
- Three-Year Average of Moody's ANPL/Full Value: 0.5%
- Three-Year Average of Moody's ANPL/Operating Revenues: 0.5x

OBLIGOR PROFILE

Grimes is a moderately sized and rapidly growing community in central Iowa. As of the 2010 Census, the City had a population of 8,246 residents.

LEGAL SECURITY

Debt service on the Series 2015 bonds is secured by the City's GOULT pledge, which benefits from a dedicated property tax levy that is unlimited by rate or amount.

USE OF PROCEEDS

Proceeds from the Series 2015 bonds will be used to finance various capital projects, including city street and park improvements.

The City's outstanding general obligation debt, including annually appropriated rebate agreements of \$1,112,489, total approximately \$26.039 million and is significantly below its constitutional debt limit of approximately \$39.375 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 2016 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 \$481,415,782 in fiscal year 2009 to \$747,302,773 in fiscal year 2015. That's an increase of 265,886,991 or 55.2%. For fiscal 2016, the valuation has increased to \$805,824,032. 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% and 2015-2016, 7.8%. General property tax receipts are projected to increase \$385,341. Building permits have remained relatively steady, with 131 permits issued in fiscal year 2005 with a total value of \$21,646,778. In fiscal year 2006, there were 102 single-family permits issued with a total value of \$23,445,036 and, in fiscal year 2007, there were 120 single family permits issued with a total value of \$15,254,370 for new construction. In fiscal year 2008, there were 138 single family permits valued at \$17,342,083, 76 multi-family permits valued at \$7,794,715 and 23 commercial permits valued at \$9,781,523. In fiscal year 2009, there were 92 single family permits valued at \$12,937,435, 16 multi-family permits valued at \$1,260,000 and 4 commercial permits valued at \$2,321,915. In fiscal year 2010, there were 228 single family permits valued at \$32,040,289, 116 multi-family permits valued at \$7,719,604 and 3 commercial permits valued at \$10,108,383. In fiscal year 2011, there were 98 single family permits valued at \$13,735,402, 7 multi-family permits valued at \$725,322 and 6 commercial permits valued at \$13,319,979. In fiscal year 2012, there were 115 single family permits valued at \$16,720,225, 8 multi-family permits valued at \$3,879,960 and 4 commercial permits valued at \$9,191,831. 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 and, in 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. Historically, the percentage changes of the value of the single family permits is as follows: 2005 to 2006, 8% increase, 2006 to 2007, 34% decrease, 2007 to 2008, 13% increase, 2008 to 2009, 25% decrease, 2009 to 2010, 147% increase, 2010 to 2011, 57% decrease, 2011 to 2012, 21% increase, 2012 to 2013, 35% increase, 2013 to 2014, 40% increase and 2014 to 2015, 36.7% increase. Consistent with all of the budget variances due to the increase in building, these numbers reaffirm the increases. The current number of developing plats and lots are as follows:

<u>PLAT NAME</u>		<u># OF LOTS</u>
Autumn Park Plat 2		31
Caymus Park Plat 1	Townhomes	41
Chevalia Valley Lot 44	Multi Family	18
North Park Estates		22
Bridge Creek Plat 3		20
Silkwood Meadows		30
Meadowlark South Plat 3		22
Meadowlark South Plat 4		33
Autumn Park Plat 3		57
Beaverbrooke West Plat 8		129
Kennybrook Estates	Townhomes	57
Brook Ridge Plat 1		29
Beaverbrooke West Plat 9		73
Bridge Creek Plat 5		13
Brooke Ridge Plat 1		29
Autumn Park Plat 4		26
Heritage Plat 1		18
Glenstone Meadows	Townhomes	41
Meadowlark South Plat 5		29
Meadowlark Place Plat 3	Multit Family	90
Caymus Park Plat 2	Townhomes	41
Kennybrook South		85
Meadowlark South Plat 6		48
Brooke Ridge West Plat 3		30
Autumn Park Plat 5		50
Destinaiton Ridge Plat 4	Multi Family	384
Autumn Park Plat 6		34
Chevalia Valley Plat 2		32
Brooke Ridge Plat 2		24
Heritage Plat 3		76
Kennybrook South Plat 1		25
Parkview Village		8
Pepperwood Glen	Multi-Family	126 Units
Chevalia Pointe		13

In addition, the economy is a factor. This is from the U.S. Census Bureau from 2010. We do know our population increased 61.7% to 8,246! This makes us the 8th fastest growing city in the State of Iowa.

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

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

(X) Not applicable.

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

The City 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. That project has now been awarded and will be started soon. Monumental improvements to both the water and wastewater plants are also in the design stages as is reconstruction of North Main Street and North James Street.

In a prior year, the City completed the annexation of 974 acres in Dallas County. In November 2006, the City completed its first voluntary annexation, which included a portion being involuntarily annexed. Also, 169.71 acres were annexed on the NE corner of Highway 141 and Highway 44. In addition, two smaller annexations were completed, both being less than one acre. The addition of over 1,145 acres puts the City in a strong position for economic growth. The City continues to look at additional areas to the west and north to facilitate future development.

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.

These indicators were taken into account when adopting the budget for fiscal year 2016. Amounts available for appropriation in the operating budget for governmental activities are \$10.478 million, decreasing from the final fiscal year 2015 actual operating receipts for governmental activities of \$16.853 million. The decrease is primarily explained by the City not anticipating receiving bond proceeds of \$8.5 million and the reduction of IDOT funds received in 2015 for the SE 19th Street project. It should be noted, however, the City will be receiving \$385,341 in additional tax revenue resulting from the increase in total valuations. The City Council also certified \$53,350 more in TIF to account for the difference in bond payments. Water receipts are budgeted higher than actual fiscal year 2015 receipts by \$173,425. Sewer is budgeted \$25,702 higher than the actual receipts in fiscal year 2015 and it's apparent this may be greatly underestimated as well. All of these numbers will be consistently monitored and amended if necessary. As always, when the budget is certified in March of each year, the actual numbers of the current budget aren't known so receipts are always estimated conservatively. Historically, actual receipts have exceeded budgeted receipts, with limited exceptions. The City will use these receipts to finance programs it currently offers, complete the capital improvement projects in process and initiate new capital improvement projects and plan for future projects. Budgeted disbursements, disregarding capital improvements and debt service, are expected to decrease approximately \$2.341 million from actual fiscal year disbursements of \$9.653 million to \$7.312 million, or 24.3%. The large decrease is accounted for by the purchase of a Public Works building and fire truck in fiscal year 2015. However, the City anticipates an increase in the Fire and Rescue Department for the full impact of the additional employee and one half along with additional hours warranted by the increase in call volume. This would result in an increase of \$226,479 over what was actually spent in fiscal year 2015. The Polk County Sheriff's contract also results in a \$169,860 increase. An additional Street Department employee and added increases will result in an \$83,332 increase. The general park budget, accounting for just realistic mowing and ground maintenance costs, will increase \$55,801 over fiscal year 2015 due to the effects of added personnel and programming. If all of the estimates are realized, the City's budgeted General Fund cash balance is expected to increase from \$2.506 million to \$3.901 million. This is partially due to the reimbursement of \$700,000 for the fire truck and careful spending by each department whereby every purchase is justified. In 2015, there was a significant buy down of the General Fund balance when the Public Works facility was purchased and paid for with only \$700,000 being financed in the \$8.5 million bond issue. 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 Kelley Brown, City Administrator, 101 North Harvey, Grimes, Iowa 50111 or by e-mail at kelbrown@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, 2015

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 3,077,667	1,136,155	22,310	-
Public works	3,875,949	-	854,440	-
Culture and recreation	1,512,321	183,255	45,806	-
Community and economic development	143,281	-	5,521	-
General government	1,044,050	56,438	46,546	-
Debt service	2,845,086	-	119,921	161,553
Capital projects	6,020,914	38,520	-	689,437
Total governmental activities	18,519,268	1,414,368	1,094,544	850,990
Business type activities:				
Water	1,948,567	2,437,575	-	-
Sewer	809,451	1,684,498	-	-
Solid waste	400,057	324,701	-	-
Storm water	122,760	415,914	-	-
Total business type activities	3,280,835	4,862,688	-	-
Total	\$ 21,800,103	6,277,056	1,094,544	850,990
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 \$182,736 premium				
Loan proceeds				
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
(1,919,202)	-	(1,919,202)
(3,021,509)	-	(3,021,509)
(1,283,260)	-	(1,283,260)
(137,760)	-	(137,760)
(941,066)	-	(941,066)
(2,563,612)	-	(2,563,612)
(5,292,957)	-	(5,292,957)
(15,159,366)	-	(15,159,366)
-	489,008	489,008
-	875,047	875,047
-	(75,356)	(75,356)
-	293,154	293,154
-	1,581,853	1,581,853
(15,159,366)	1,581,853	(13,577,513)
4,828,477	-	4,828,477
1,545,786	-	1,545,786
1,298,253	-	1,298,253
83,937	-	83,937
8,682,736	-	8,682,736
400,000	-	400,000
14,216	142	14,358
420,000	(420,000)	-
17,273,405	(419,858)	16,853,547
2,114,039	1,161,995	3,276,034
9,808,468	4,187,514	13,995,982
\$ 11,922,507	5,349,509	17,272,016
\$ 2,801,234	330,375	3,131,609
484,153	-	484,153
61,961	-	61,961
5,336,609	-	5,336,609
490,587	-	490,587
2,747,963	5,019,134	7,767,097
\$ 11,922,507	5,349,509	17,272,016

City of Grimes

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

As of and for the year ended June 30, 2015

	Special Revenue		
	General	Road Use Tax	Tax Increment Financing
Receipts:			
Property tax	\$ 3,899,886	-	-
Tax increment financing	-	-	1,298,253
Other city tax	224,025	-	-
Licenses and permits	698,252	-	-
Use of money and property	27,616	-	-
Intergovernmental	154,258	854,439	-
Charges for service	595,965	-	-
Special assessments	-	-	-
Miscellaneous	72,041	-	-
Total receipts	5,672,043	854,439	1,298,253
Disbursements:			
Operating:			
Public safety	3,058,126	-	-
Public works	3,328,811	547,138	-
Culture and recreation	1,510,161	-	-
Community and economic development	143,281	-	-
General government	1,044,050	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	9,084,429	547,138	-
Excess (deficiency) of receipts over (under) disbursements	(3,412,386)	307,301	1,298,253
Other financing sources (uses):			
Loan proceeds	400,000	-	-
General obligation bond proceeds, net of \$182,738 premium	700,000	-	-
Transfers in	702,651	-	-
Transfers out	(80,000)	(273,377)	(1,281,086)
Total other financing sources (uses)	1,722,651	(273,377)	(1,281,086)
Change in cash balances	(1,689,735)	33,924	17,167
Cash balances beginning of year	4,437,698	450,229	44,794
Cash balances end of year	\$ 2,747,963	484,153	61,961
Cash Basis Fund Balances			
Restricted for:			
Debt service	\$ -	-	-
Streets	-	484,153	-
Urban renewal purposes	-	-	61,961
Capital projects	-	-	-
Other purposes	-	-	-
Unassigned	2,747,963	-	-
Total cash basis fund balances	\$ 2,747,963	484,153	61,961

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
1,545,786	-	704,566	6,150,238
-	-	-	1,298,253
-	-	-	224,025
-	-	-	698,252
-	38,520	5,521	71,657
119,921	689,437	10,187	1,828,242
-	-	-	595,965
161,553	-	-	161,553
-	-	30,343	102,384
1,827,260	727,957	750,617	11,130,569
-	-	19,541	3,077,667
-	-	-	3,875,949
-	-	2,160	1,512,321
-	-	-	143,281
-	-	-	1,044,050
2,845,086	-	-	2,845,086
-	6,020,914	-	6,020,914
2,845,086	6,020,914	21,701	18,519,268
(1,017,826)	(5,292,957)	728,916	(7,388,699)
-	-	-	400,000
-	7,982,738	-	8,682,738
1,254,463	800,000	-	2,757,114
-	-	(702,651)	(2,337,114)
1,254,463	8,782,738	(702,651)	9,502,738
236,637	3,489,781	26,265	2,114,039
2,564,597	1,846,828	464,322	9,808,468
2,801,234	5,336,609	490,587	11,922,507
2,801,234	-	-	2,801,234
-	-	-	484,153
-	-	-	61,961
-	5,336,609	-	5,336,609
-	-	490,587	490,587
-	-	-	2,747,963
2,801,234	5,336,609	490,587	11,922,507

Exhibit C

City of Grimes

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

As of and for the year ended June 30, 2015

	Enterprise			Total
	Water	Sewer	Nonmajor	
Operating receipts:				
Charges for service	\$ 2,437,575	1,684,498	740,615	4,862,688
Operating disbursements:				
Business type activities	1,445,131	464,089	522,817	2,432,037
Excess of operating receipts over operating disbursements	992,444	1,220,409	217,798	2,430,651
Non-operating receipts (disbursements):				
Interest on investments	142	-	-	142
Debt service	(503,436)	(345,362)	-	(848,798)
Net non-operating receipts (disbursements)	(503,294)	(345,362)	-	(848,656)
Excess of receipts over disbursements	489,150	875,047	217,798	1,581,995
Other financing sources (uses):				
Transfers in	-	-	80,000	80,000
Transfers out	(200,000)	(200,000)	(100,000)	(500,000)
Total other financing sources (uses)	(200,000)	(200,000)	(20,000)	(420,000)
Change in cash balances	289,150	675,047	197,798	1,161,995
Cash balances beginning of year	1,888,408	1,923,437	375,669	4,187,514
Cash balances end of year	\$ 2,177,558	2,598,484	573,467	5,349,509
Cash Basis Fund Balances				
Restricted for debt service	\$ 206,524	123,851	-	330,375
Unrestricted	1,971,034	2,474,633	573,467	5,019,134
Total cash basis fund balances	\$ 2,177,558	2,598,484	573,467	5,349,509

See notes to financial statements.

City of Grimes

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies

The City of Grimes is a political subdivision of the State of Iowa located in Polk County. It was first incorporated in 1904 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, sewer, solid waste and storm water 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 and enterprise funds are aggregated and reported as nonmajor governmental funds and nonmajor enterprise 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.

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, 2015, disbursements exceeded the amounts budgeted in the public safety and public works functions.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2015 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 \$59,126 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City’s investment in the Iowa Public Agency Investment Trust is unrated.

(3) Bonds Payable and Other Financing Arrangements

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2016	\$ 2,070,000	833,836	657,000	76,195	2,727,000	910,031	3,637,031
2017	1,875,000	785,793	684,000	64,698	2,559,000	850,491	3,409,491
2018	1,930,000	719,573	710,000	52,728	2,640,000	772,301	3,412,301
2019	1,770,000	648,681	739,000	40,302	2,509,000	688,983	3,197,983
2020	1,835,000	579,729	767,000	27,370	2,602,000	607,099	3,209,099
2021-2025	7,770,000	1,815,862	797,000	13,946	8,567,000	1,829,808	10,396,808
2026-2030	3,990,000	847,840	-	-	3,990,000	847,840	4,837,840
2031-2035	3,370,000	300,550	-	-	3,370,000	300,550	3,670,550
Total	\$ 24,610,000	6,531,864	4,354,000	275,239	28,964,000	6,807,103	35,771,103

Water 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, 2015, the City had drawn down \$1,352,519 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, 2015, the City paid principal of \$102,000 and interest of \$25,050 on the bonds under a preliminary repayment schedule.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$8,408,000 of water revenue bonds issued in December 2000 and July 2013. 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 51% of net receipts. The total principal and interest remaining to be paid on the bonds issued in December 2000 is \$2,388,662. For the current year, principal and interest paid and total customer net receipts were \$502,148 and \$992,586, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$5,372,000 of sewer revenue bonds issued in December 2000. 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 29% of net receipts. The total principal and interest remaining to be paid on the bonds is \$2,240,577. For the current year, principal and interest paid and total customer net receipts were \$344,158 and \$1,220,409, respectively.

On June 1, 2013, the Iowa Finance Authority reduced the interest rates on the 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, 2015 was \$316,755. The loan will be repaid from collections of a debt service levy on all taxable property in the City.

(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 P.O. 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, anytime 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. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Protection occupation members may retire at normal retirement age, which is generally at 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 years of service greater than 22, 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 percent 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 percent 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 - Effective July 1, 2012, as a result of a 2010 law change, the 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 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent. Protection occupation members contributed 6.76% of pay and the City contributed 10.14% for a total of 16.80%.

The City's contributions to IPERS for the year ended June 30, 2015 were \$175,467.

Collective Net Pension Liability, Collective Pension Expense, Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$668,578. The collective net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective 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, 2014, the City's proportion was 0.016858 percent, which was a decrease of 0.001585 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City's collective pension expense, collective deferred outflows of resources and collective deferred inflows of resources totaled \$66,396, \$63,475 and \$389,043, respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of 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>
US Equity	23%	6.31%
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. 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 7.5 percent, 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-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	\$ 1,552,538	\$ 668,578	\$ (77,281)

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 27 active and 1 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 are \$300 for single coverage and \$900 for family coverage. For the year ended June 30, 2015, the City contributed \$284,711 and \$666 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, 2015, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 91,000
Compensatory time	31,000
Sick leave	27,000
Total	<u>\$ 149,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2015.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Employee Benefits	<u>\$ 702,651</u>
Debt Service	Special Revenue: Road Use Tax Tax Increment Financing	<u>73,377</u> <u>1,181,086</u> <u>1,254,463</u>
Capital Projects	Special Revenue: Road Use Tax Tax Increment Financing Enterprise: Water Sewer Storm Water	<u>200,000</u> <u>100,000</u> <u>200,000</u> <u>200,000</u> <u>100,000</u> <u>800,000</u>
Enterprise: Solid Waste	General	<u>80,000</u>
Total		<u>\$ 2,837,114</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 727 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability,

automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2015 were \$157,377.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured 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 or series of claims exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a series of casualty claims exhausts the Pool's funds and reinsurance 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. The City does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2015, no liability has been recorded in the City's financial statements. As of June 30, 2015, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception. As of June 30, 2015, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all 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. The City also self-insures the co-pay for amounts exceeding \$15 per office visit. Monthly payments of claims are paid from the City's General Fund. During the year ended June 30, 2015, the City transferred \$1,517 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 13 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 \$4,905,210. The agreements do not include provisions for payment of interest.

During the year ended June 30, 2015, the City rebated \$295,035 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, 2015 is \$3,344,967.

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, 2015, the City paid \$50,000 from the Special Revenue, Road Use Tax Fund. The outstanding principal balance on this agreement at June 30, 2015 is \$100,000.

(10) Economic Development Loan

On January 10, 2006, the City approved an economic development loan agreement with Breeding True Value Hardware. The City loaned \$50,000 to assist in locating a store in the City. The loan bears interest at 2% per annum and is to be repaid in monthly installments of \$460 beginning in June 2006 for a period of ten years. As of June 30, 2015, the outstanding loan balance is \$4,586.

(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 \$10,634,037. As of June 30, 2015, costs of \$10,204,981 had been paid on the contracts. The remaining \$429,056 will be paid as work on these projects progresses.

(14) Internal Loan

The City loaned \$855,000 to the Special Revenue, Tax Increment Financing Fund from the Capital Projects Fund for the Sports Complex Park. The remaining balance of the internal loan is \$405,000 as of June 30, 2015.

(15) Subsequent Event

On December 21, 2015, the City entered into a Loan Agreement with Charter Bank for \$700,000 to purchase a Pierce Manufacturing Fire and Rescue Fire engine and equipment.

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, 2015

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required To Be Budgeted
Receipts:			
Property tax	\$ 6,150,238	-	-
Delinquent property tax	-	-	-
Tax increment financing	1,298,253	-	-
Other city tax	224,025	-	-
Licenses and permits	698,252	-	-
Use of money and property	71,657	142	-
Intergovernmental	1,828,242	-	-
Charges for service	595,965	4,862,688	-
Special assessments	161,553	-	-
Miscellaneous	102,384	-	22,311
Total receipts	11,130,569	4,862,830	22,311
Disbursements:			
Public safety	3,077,667	-	19,541
Public works	3,875,949	-	-
Health and social services	-	-	-
Culture and recreation	1,512,321	-	-
Community and economic development	143,281	-	-
General government	1,044,050	-	-
Debt service	2,845,086	-	-
Capital projects	6,020,914	-	-
Business type activities	-	3,280,835	-
Total disbursements	18,519,268	3,280,835	19,541
Excess (deficiency) of receipts over (under) disbursements	(7,388,699)	1,581,995	2,770
Other financing sources (uses), net	9,502,738	(420,000)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	2,114,039	1,161,995	2,770
Balances beginning of year	9,808,468	4,187,514	15,538
Balances end of year	\$ 11,922,507	5,349,509	18,308

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
6,150,238	6,016,666	6,016,666	133,572
-	1,000	1,000	(1,000)
1,298,253	1,281,086	1,281,086	17,167
224,025	331,264	332,871	(108,846)
698,252	361,825	592,024	106,228
71,799	46,900	188,221	(116,422)
1,828,242	950,372	2,986,924	(1,158,682)
5,458,653	5,836,800	5,362,100	96,553
161,553	100,000	100,000	61,553
80,073	34,500	49,000	31,073
15,971,088	14,960,413	16,909,892	(938,804)
3,058,126	2,816,720	2,596,992	(461,134)
3,875,949	1,988,000	1,878,800	(1,997,149)
-	13,000	20,000	20,000
1,512,321	1,350,292	1,628,947	116,626
143,281	165,570	165,570	22,289
1,044,050	729,441	1,141,841	97,791
2,845,086	2,763,187	5,836,770	2,991,684
6,020,914	5,125,000	7,125,000	1,104,086
3,280,835	3,587,837	3,809,863	529,028
21,780,562	18,539,047	24,203,783	2,423,221
(5,809,474)	(3,578,634)	(7,293,891)	1,484,417
9,082,738	2,000,000	8,900,000	182,738
-	-	-	-
3,273,264	(1,578,634)	1,606,109	1,667,155
13,980,444	9,196,314	13,995,981	(15,537)
17,253,708	7,617,680	15,602,090	1,651,618

City of Grimes

Notes to Other Information – Budgetary Reporting

June 30, 2015

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 \$5,664,736. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the public safety and public works functions.

City of Grimes

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

Iowa Public Employees' Retirement System
Last Fiscal Year*
(In Thousands)

Other Information

	<u>2015</u>
City's proportion of the net pension liability	0.016858%
City's proportionate share of the net pension liability	\$ 669
City's covered-employee payroll	\$ 1,674
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	39.96%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

City of Grimes

Schedule of City Contributions

Iowa Public Employees' Retirement System
Last 10 Fiscal Years
(In Thousands)

Other Information

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 175	154	134	114
Contributions in relation to the statutorily required contribution	<u>(175)</u>	<u>(154)</u>	<u>(134)</u>	<u>(114)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
County's covered-employee payroll	\$ 1,896	1,674	1,497	1,356
Contributions as a percentage of covered-employee payroll	9.23%	9.20%	8.95%	8.41%

See accompanying independent auditor's report.

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
96	88	72	55	43	35
<u>(96)</u>	<u>(88)</u>	<u>(72)</u>	<u>(55)</u>	<u>(43)</u>	<u>(35)</u>
-	-	-	-	-	-
1,289	1,250	1,091	869	734	611
7.45%	7.04%	6.60%	6.33%	5.86%	5.73%

City of Grimes

Notes to Other Information – Pension Liability

Year ended June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current 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 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action 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.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

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 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent 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 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.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs, deputies and protection occupation members.

City of Grimes

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, 2015

	Employee Benefits	Economic Development Revolving Loan	Special Grimes Fire and Rescue Association
Receipts:			
Property tax	\$ 704,566	-	-
Use of money and property	-	5,521	-
Intergovernmental	-	-	-
Miscellaneous	-	-	22,311
Total receipts	<u>704,566</u>	<u>5,521</u>	<u>22,311</u>
Disbursements:			
Operating:			
Public safety	-	-	19,541
Culture and recreation	-	-	-
Total disbursements	<u>-</u>	<u>-</u>	<u>19,541</u>
Excess (deficiency) of receipts over (under) disbursements	704,566	5,521	2,770
Other financing uses:			
Transfers out	<u>(702,651)</u>	-	-
Change in cash balances	1,915	5,521	2,770
Cash balances beginning of year	166,704	206,094	15,538
Cash balances end of year	<u>\$ 168,619</u>	<u>211,615</u>	<u>18,308</u>
Cash Basis Fund Balances			
Restricted for other purposes	<u>\$ 168,619</u>	<u>211,615</u>	<u>18,308</u>

See accompanying independent auditor's report.

Revenue			
FEMA Grant	Library	Rolow Memorial	Total
-	-	-	704,566
-	-	-	5,521
-	10,187	-	10,187
-	8,032	-	30,343
-	18,219	-	750,617
-	-	-	19,541
-	2,160	-	2,160
-	2,160	-	21,701
-	16,059	-	728,916
-	-	-	(702,651)
-	16,059	-	26,265
34,240	39,913	1,833	464,322
34,240	55,972	1,833	490,587
34,240	55,972	1,833	490,587

Schedule 2

City of Grimes

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2015

	Enterprise		Total
	Solid Waste	Storm Water	
Operating receipts:			
Charges for service	\$ 324,701	415,914	740,615
Operating disbursements:			
Business type activities	400,057	122,760	522,817
Excess (deficiency) of operating receipts over (under) operating disbursements	(75,356)	293,154	217,798
Other financing sources (uses):			
Transfers in	80,000	-	80,000
Transfers out	-	(100,000)	(100,000)
Total other financing sources (uses)	80,000	(100,000)	(20,000)
Change in cash balances	4,644	193,154	197,798
Cash balances beginning of year	1,924	373,745	375,669
Cash balances end of year	\$ 6,568	566,899	573,467
Cash Basis Fund Balances			
Unrestricted	\$ 6,568	566,899	573,467

See accompanying independent auditor's report.

City of Grimes

City of Grimes
Schedule of Indebtedness
June 30, 2015

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	Sep 1, 2011	0.60-1.50	1,250,000
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
Total			
Revenue bonds:			
Water	Dec 19, 2000	1.75% *	\$ 5,976,000
Water	Jul 12, 2013	1.75 **	2,432,000
Sewer	Dec 19, 2000	1.75 *	5,372,000
Total			
Loan agreements:			
Fire truck	Mar 22, 2005	3.05-4.58%	\$ 498,681
Snow plows and skid loader	Jul 30, 2014	2.00	400,000
Lease-purchase agreement:			
Wheel loader and sweeper	Aug 9, 2011	2.71%	\$ 347,310

* 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
3,170,000	-	340,000	2,830,000	128,510
7,495,000	-	640,000	6,855,000	369,615
495,000	-	245,000	250,000	6,812
5,795,000	-	270,000	5,525,000	121,931
850,000	-	200,000	650,000	17,000
-	8,500,000	-	8,500,000	-
\$ 17,805,000	8,500,000	1,695,000	24,610,000	643,868
2,577,000	-	330,000	2,247,000	45,098
1,252,519	-	102,000	1,150,519	25,050
2,409,000	-	302,000	2,107,000	42,158
\$ 6,238,519	-	734,000	5,504,519	112,306
48,681	-	48,681	-	2,230
-	400,000	83,245	316,755	-
\$ 48,681	400,000	131,926	316,755	2,230
71,294	-	71,294	-	1,933

City of Grimes

Bond Maturities

June 30, 2015

Year Ending June 30,	General Obligation Bonds									
	Corporate Purpose Issued Aug 1, 2007		Corporate Purpose Issued Nov 1, 2009		Corporate Purpose Issued Sept 1, 2011		Corporate Purpose Issued Dec 1, 2012		Corporate Purpose Issued Apr 15, 2013	
	Interest		Interest		Interest		Interest		Interest	
Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2016	4.00%	\$ 355,000	4.25%	\$ 655,000	1.50%	\$ 250,000	2.00%	\$ 275,000	2.00%	\$ 215,000
2017	4.00	370,000	4.65	680,000	-	-	2.00	280,000	2.00	215,000
2018	4.05	385,000	5.00	700,000	-	-	2.00	285,000	2.00	220,000
2019	4.05	405,000	5.00	725,000	-	-	2.00	290,000	-	-
2020	4.10	420,000	5.00	755,000	-	-	2.00	300,000	-	-
2021	4.10	440,000	5.15	785,000	-	-	2.00	305,000	-	-
2022	4.10	455,000	5.30	815,000	-	-	2.00	310,000	-	-
2023	-	-	5.35	850,000	-	-	2.00	315,000	-	-
2024	-	-	5.40	890,000	-	-	2.00	325,000	-	-
2025	-	-	-	-	-	-	2.00	330,000	-	-
2026	-	-	-	-	-	-	2.13	335,000	-	-
2027	-	-	-	-	-	-	2.00	345,000	-	-
2028	-	-	-	-	-	-	2.00	350,000	-	-
2029	-	-	-	-	-	-	2.13	355,000	-	-
2030	-	-	-	-	-	-	2.38	365,000	-	-
2031	-	-	-	-	-	-	2.50	375,000	-	-
2032	-	-	-	-	-	-	2.50	385,000	-	-
2033	-	-	-	-	-	-	-	-	-	-
2034	-	-	-	-	-	-	-	-	-	-
2035	-	-	-	-	-	-	-	-	-	-
Total		<u>\$ 2,830,000</u>		<u>\$ 6,855,000</u>		<u>\$ 250,000</u>		<u>\$ 5,525,000</u>		<u>\$ 650,000</u>

See accompanying independent auditor's report.

Corporate Purpose			Revenue Bonds					
Issued June 25, 2015			Water		Sewer			
			Issued Dec 19, 2000		Issued Dec 19, 2000			
Interest			Interest		Interest			
Rates	Amount	Total	Rates	Total	Rates	Amount	Total	
3.00%	\$ 320,000	2,070,000	1.75%	\$ 342,000	1.75%	\$ 315,000	657,000	
3.00	330,000	1,875,000	1.75	355,000	1.75	329,000	684,000	
3.00	340,000	1,930,000	1.75	367,000	1.75	343,000	710,000	
3.00	350,000	1,770,000	1.75	381,000	1.75	358,000	739,000	
3.00	360,000	1,835,000	1.75	394,000	1.75	373,000	767,000	
3.00	370,000	1,900,000	1.75	408,000	1.75	389,000	797,000	
2.50	380,000	1,960,000		-		-	-	
2.50	390,000	1,555,000		-		-	-	
2.75	400,000	1,615,000		-		-	-	
2.75	410,000	740,000		-		-	-	
3.00	420,000	755,000		-		-	-	
3.00	435,000	780,000		-		-	-	
3.00	450,000	800,000		-		-	-	
3.00	460,000	815,000		-		-	-	
3.00	475,000	840,000		-		-	-	
3.00	490,000	865,000		-		-	-	
3.00	510,000	895,000		-		-	-	
3.50	520,000	520,000		-		-	-	
3.50	535,000	535,000		-		-	-	
3.50	555,000	555,000		-		-	-	
	<u>\$ 8,500,000</u>	<u>24,610,000</u>		<u>\$ 2,247,000</u>		<u>\$ 2,107,000</u>	<u>4,354,000</u>	

City of Grimes

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

For the Last Ten Years

	2015	2014	2013	2012
Receipts:				
Property tax	\$ 6,150,238	5,812,917	5,384,022	5,145,434
Tax increment financing	1,298,253	1,174,536	1,335,445	1,161,927
Other city tax	224,025	210,131	204,179	243,855
Licenses and permits	698,252	466,683	423,560	345,021
Use of money and property	71,657	72,145	67,607	77,028
Intergovernmental	1,828,242	1,131,826	1,283,467	2,193,161
Charges for service	595,965	615,911	437,434	355,207
Special assessments	161,553	153,437	199,663	190,504
Miscellaneous	102,384	93,372	99,578	90,807
Total	\$ 11,130,569	9,730,958	9,434,955	9,802,944
Disbursements:				
Operating:				
Public safety	\$ 3,077,667	2,280,626	1,771,301	1,792,889
Public works	3,875,949	1,893,484	1,401,187	2,264,122
Health and social services	-	-	-	5,809
Culture and recreation	1,512,321	1,175,528	869,581	893,848
Community and economic development	143,281	129,683	122,300	122,548
General government	1,044,050	687,525	655,158	534,360
Debt service	2,845,086	2,773,233	3,734,868	3,666,018
Capital projects	6,020,914	3,442,998	2,683,365	5,094,990
Total	\$ 18,519,268	12,383,077	11,237,760	14,374,584

See accompanying independent auditor's report.

2011	2010	2009	2008	2007	2006
5,033,717	4,461,334	3,805,022	3,239,293	2,853,663	2,502,802
1,060,037	812,070	881,205	966,128	761,226	817,073
226,812	215,732	197,810	198,987	112,067	68,100
261,512	349,221	184,396	427,871	425,331	355,345
146,295	91,697	282,917	311,866	154,674	101,908
4,219,426	1,594,655	560,122	582,316	1,073,834	890,894
291,711	247,272	269,886	252,863	240,383	414,290
273,936	189,244	60,230	37,859	49,060	137,137
512,549	1,067,568	1,715,428	1,678,958	1,756,010	1,428,522
12,025,995	9,028,793	7,957,016	7,696,141	7,426,248	6,716,071
1,342,355	1,267,021	1,126,024	1,066,345	824,398	1,139,269
1,461,193	1,421,463	1,660,313	1,045,823	767,595	684,261
-	-	-	-	6,067	33,583
937,497	738,238	778,958	575,730	480,494	542,363
114,011	112,859	160,916	141,481	58,799	128,219
521,971	609,524	577,086	497,589	486,222	499,030
2,150,932	1,631,804	1,585,293	1,834,602	1,371,799	1,413,924
6,624,078	7,150,402	4,089,799	4,379,280	5,092,309	3,362,209
13,152,037	12,931,311	9,978,389	9,540,850	9,087,683	7,802,858

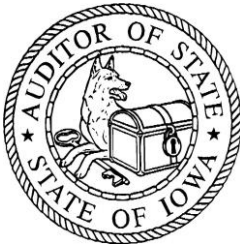
Schedule 6

City of Grimes
Schedule of Expenditures of Federal Awards
Year ended June 30, 2015

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-U-3125 (611)--70-77	<u>\$ 570,000</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Grimes and is presented on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor’s report.



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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, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 12, 2016. 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 were not identified. We identified a deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs we consider to be a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 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 and Questioned Costs. 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.

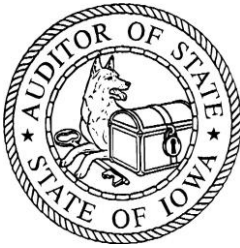

MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 12, 2016

**Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by OMB Circular A-133**

City of Grimes



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

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Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Grimes, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Grimes' major federal program for the year ended June 30, 2015. The City of Grimes's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Grimes' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Grimes' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on the City of Grimes' compliance.

Opinion on the Major Federal Program

In our opinion, the City of Grimes complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.


Report on Internal Control Over Compliance


The management of the City of Grimes is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Grimes' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Grimes' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses or significant deficiencies. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 12, 2016

City of Grimes

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

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

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 20.205 – Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Grimes did not qualify as a low-risk auditee.

City of Grimes

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

Part II: Finding Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCY:

Financial Reporting – During the audit, we identified material amounts of receipts, disbursements and transfers incorrectly recorded in the Debt Service Fund. Adjustments were subsequently made by the City to properly record these amounts in the General Fund.

Recommendation – The City should implement procedures to ensure receipts, disbursements and transfers are properly classified in the financial statements.

Response – As indicated above, all of the transactions were planned, approved and accounted for. Unfortunately, they were not accounted for in the appropriate funds. All future receipts and disbursements will be recorded in the appropriate funds.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Grimes

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major program were noted.

City of Grimes

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-15 Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety and public works functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The appropriate hearings for the disbursements were held and approved by the City Council; however, the disbursements were not accounted for in the appropriate funds in the City’s budget. Going forward, all disbursements will be made from the appropriate funds and only debt repayments will be accounted for in the Debt Service Fund.

Conclusion – Response accepted.

IV-B-15 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-C-15 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-15 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-15 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.

IV-F-15 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

IV-G-15 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.

IV-H-15 Water and Sewer Revenue Bonds – No instances of non-compliance with the provisions of the revenue bond resolutions were noted.

IV-I-15 Annual Urban Renewal Report – The Annual Urban Renewal Report was approved and certified to the Iowa Department of Management on or before December 1. However, the City understated the amount reported as TIF debt outstanding by \$485,037.

Recommendation – The City should ensure debt amounts reported on the Levy Authority Summary agree with the City’s records. The City should certify the additional TIF obligations undertaken in fiscal year 2014 on the City’s next TIF certification.

City of Grimes

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

Response – The report was completed as per the instructions on the report. As it turns out the instructions were not written correctly. Thus, the report was not completed as required, but was completed per the instructions. The writers of the instructions admit they were in error as well.

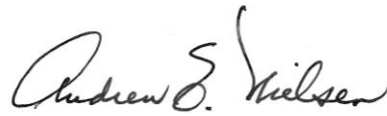
Conclusion – Response accepted.

City of Grimes

Staff

This audit was performed by:

Timothy D. Houlette, CPA, Manager
Melissa J. Knoll-Speer, Senior Auditor II
Melissa A. Hastert, CPA, Staff Auditor
Jon M. Mader, 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