



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

February 22, 2013

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

The City's receipts totaled \$14,943,488 for the year ended June 30, 2012, a 1.4% decrease from 2011. The receipts included \$5,287,983 in property tax, \$1,161,927 from tax increment financing, \$4,554,075 from charges for service, \$1,027,391 from operating grants, contributions and restricted interest, \$1,189,975 from capital grants, contributions and restricted interest, \$1,250,000 from general obligation refunding bond proceeds, \$347,310 from lease proceeds, \$23,133 from unrestricted interest on investments and \$101,694 from other general receipts.

Disbursements for the year totaled \$17,025,136, a 6.9% increase from the prior year, and included \$5,094,990 for capital projects, \$3,666,018 for debt service and \$2,264,122 for public works. Also, disbursements for business type activities totaled \$2,650,552. The increase in debt service disbursements is due primarily to the current refunding of \$1,205,000 of general obligation bonds.

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/1220-0719-B00F.pdf>.

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CITY OF GRIMES
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2012

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City of Grimes

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
Tom Armstrong	Mayor	Jan 2014
Jill Altringer	Mayor Pro tem	Jan 2014
Tami Evans	Council Member	Jan 2012
Craig Patterson	Council Member	Jan 2012
Thomas Shatava	Council Member	Jan 2014
Mat Trapper	Council Member	Jan 2014
Kelley Brown	Administrator	Indefinite
Rochelle Williams	Clerk	Indefinite
Deborah Gallagher	Treasurer	Indefinite
Tom Henderson	Attorney	Indefinite
(After January 2012)		
Tom Armstrong	Mayor	Jan 2014
Jill Altringer	Mayor Pro tem	Jan 2014
Thomas Shatava	Council Member	Jan 2014
Mat Trapper	Council Member	Jan 2014
Tami Evans	Council Member	Jan 2016
Craig Patterson	Council Member	Jan 2016
Kelley Brown	Administrator	Indefinite
Rochelle Williams	Clerk	Indefinite
Deborah Gallagher	Treasurer	Indefinite
Tom Henderson	Attorney	Indefinite

City of Grimes



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grimes, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Grimes' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

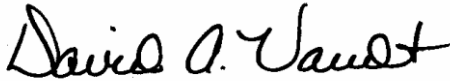
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grimes as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 24, 2013 on our consideration of the City of Grimes' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 and should be considered in assessing the results of our audit.

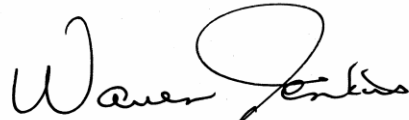
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grimes' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part

of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our 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 financial statements or to the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grimes' basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 24 and 42 through 44 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 24, 2013

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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- The governmental activities property tax and tax increment financing receipts increased \$185,382 from fiscal year 2011 to fiscal year 2012. This is the result of the regular taxable valuation increase from \$361,997,729 to \$382,998,224. This is significant, especially this year, because the Polk County Assessor had cautioned most cities in Polk County they could expect an average of a 4% decrease in overall valuations. Over the past five years, the regular taxable valuation has grown from \$219,293,831 to \$382,998,224, resulting in an increase of \$163,704,393, or 74.7%.

Receipts and transfers of the City's governmental activities decreased 6.0%, or \$748,336, from fiscal year 2011 to fiscal year 2012. Federal and state funding for the Highway 44 project received in fiscal year 2011 accounts for a majority of this decrease. Discounting the federal and state funding, the proceeds increased \$1,908,636, or 22.1%, mostly because of lease proceeds for the end loader and the street sweeper, the increase in property tax as noted, an additional \$75,767 in charges for service and the issuance of \$1,250,000 of general obligation refunding bonds. Fiscal year 2012 continued to be very busy for the City of Grimes as there was an apparent spike in the building permits and plat development in spite of the economy. The Highway 44 Project has now been substantially completed. This project started as an \$8,000,000 + project receiving both Iowa Department of Transportation and federal funds. It had been projected to be completed in the fall of 2010. However, due to adverse weather conditions it continued throughout the construction season of 2011 and 2012 as well. Other substantial projects, such as the outfall sewer and channel improvement project, the HMA paving project, the North Sports Complex and the ASR well projects, were also substantially completed in fiscal year 2012.

Although construction has experienced a somewhat roller coaster effect over the last few years with an increase in fiscal year 2010 and a decrease in fiscal year 2011, building permits are back on the rise. In fiscal year 2011, building permit fees decreased approximately \$93,000. However, in fiscal year 2012 they increased \$88,035, almost making up the difference. In fiscal year 2011, water tapping fees decreased approximately \$77,000. However, in fiscal year 2012 there was an increase of \$114,142 in water tapping fees, a net increase of \$37,142 over the last two years. Sewer tapping fees also followed the trend decreasing approximately \$85,000 in fiscal year 2011 but increasing \$133,756 in fiscal year 2012, a net increase of \$48,756 in the last two years. Indicative of an increase in actual plat development, building development fees, which are the reimbursement of billed engineering and inspection fees for the site plans, plats and public infrastructure improvements, showed an even greater rebound from the increase from \$44,690 in fiscal year 2010 to \$54,620 in fiscal year 2011 and now to \$111,738 in fiscal year 2012 which more than doubled. Consistent with this trend, disbursements for engineering and inspection fees also increased after the initial decrease from \$76,125 in fiscal year 2009 to \$70,459 in fiscal year 2010, \$74,791 in fiscal year 2011 and now \$156,652 in fiscal year 2012. What this means is that new plats are currently on a rebound! Permitting and construction are on the move and the City of Grimes is once again on the move.

Even during the downturn in building overall, commercial valuation continued to increase. Starting in 2003, commercial valuations have grown over the years from \$62,873,157, \$63,462,659, \$76,457,880, \$80,700,405, \$99,563,533, \$114,571,090, \$136,366,480, \$151,167,840, \$162,868,450 and now, in fiscal year 2012,

\$154,538,120. The County Assessor had cautioned cities in Polk County overall valuations could decrease an average of 4% with commercial valuation being affected the most. This decrease of \$8.3 million is a little over the average of 5.1%. Overall, the last nine years commercial valuation has increased \$91,664,963, or 145.8%. 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 40.3% of the City's taxable valuation.

Because of the proceeds from the bond issue to be disbursed on the Highway 44 and a delay in the project in 2010, most of these proceeds remained and the total cash balances decreased from \$12,229,192 at the end of fiscal year 2010 to \$11,450,034 at the end of fiscal year 2011 and now to \$9,368,386 at the end of fiscal year 2012. The City also received \$1,189,975 in federal assistance and state reimbursements for the Highway 44 Project.

The trend for road use tax receipts seems to be inconsistent. In fiscal year 2007, there was a slight decrease of \$2,231. In fiscal year 2008, receipts increased \$13,645, in fiscal year 2009, receipts decreased \$15,844 and in fiscal year 2010, receipts increased \$31,797, which doesn't include the \$25,603 of I-Jobs Road Use Tax (RUT) money. In fiscal year 2011, \$811,999 was receipted in RUT, \$120,438 of which were loan proceeds for the plow truck, \$31,153 was I-Jobs and \$63,498 was a refund, leaving a balance of \$596,910. The net increase from fiscal year 2010 to fiscal year 2011 was \$53,141. In fiscal year 2012, the net proceeds were \$782,142, which is an increase of \$185,232, or 31.0%.

When the new Census numbers were certified, the City of Grimes received a larger allocation of RUT funds. All cities in Iowa receive RUT funds. These are distributed equally on the basis of per capita share. 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. In fiscal year 2011, the amount disbursed was \$90.50 per person, it was \$94.00 per person this fiscal year and is expected to increase to \$97.00 per person for fiscal year 2013.

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 two 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 of Grimes residents two hours of free rental on most rooms for special occasions. This new programming and rental programs have accounted for \$496,838 in additional receipts over the last five years and \$146,610 in receipts for fiscal year 2012 alone.

Fire and rescue charges decreased \$28,731, from \$106,893 to \$78,162, due to a decrease in collections as the number of calls did increase. The county library tax subsidy from the Polk County Board of Supervisors increased \$4,055 although it was expected to decrease every year until this program is phased out.

All in all, given the climate of the County, the City of Grimes stood 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 \$1,222,547, or 9.3%, from fiscal year 2011 to fiscal year 2012. The net difference in disbursements, after eliminating the effects of capital projects and debt service, is an actual increase of \$1,236,549, from \$4,377,027 in fiscal year 2011 to \$5,613,576 in fiscal year 2012. Spending for the public safety function increased from \$1,342,355 to \$1,792,889. Some of this increase can be accounted for by the increase in the Polk County Sheriff's contract. During the next three years, the City of Grimes and Polk County have contracted in an agreement whereby the City will stair step increase its contributions to the County so the County isn't contributing as high of a percentage of the disbursements of this contract. This first year resulted in an increase of \$53,186, the second year increased \$71,093 and this year increased \$58,612. The City of Grimes also hired an additional full time paramedic/fire fighter in 2010, increasing the current staff to three full time and an additional full time-equivalent paramedic/fire fighter to be on staff during the day, for an increase in spending of \$72,233 in fiscal year 2010 and an increase in calls resulted in an increase of \$24,348 in fiscal year 2011. In fiscal year 2012, the increase for the fire department accounted for \$273,730, mostly due to the purchase of the new ambulance and a reallocation of worker's compensation fees. Engineering disbursements increased by \$111,610 due to the increase in building, review fees and development fees. The Building Department also contributed \$4,394 to the Metro Home Improvement Program in fiscal year 2011, which accounted for an increase of \$20,288 to \$25,082. Approximately \$25,000 is paid out every two years. The Metro Home Improvement Program is an owner occupied rehabilitation improvement program with the purpose to preserve the existing affordable housing stock in the participating communities. There was also a decrease in personnel from fiscal year 2011, which accounted for a decrease in expenses of approximately \$25,000.
- Public works function disbursements increased \$802,929. The major increase is in the Special Revenue, Road Use Tax Fund (RUT). RUT expended an additional \$703,937 more than last year, which is a result of 2 inch overlays on SE 2nd Street, some patchwork on SE 37th Street and SE 19th Street along with the purchase of an end loader and street sweeper. In addition, the parking lot at the Maintenance facility on NE Main Street was reconstructed. As well, two installments for the payments for the railroad abandonment were expended. An increase in Street Lights accounted for \$18,363 and the hiring of two additional personnel and workers compensation \$80,870. In fiscal year 2008, the City purchased the old elevator property and demolished the elevator and all of the grain storage bins in this area. The Railroad has agreed to abandon the line to just south of South 11th Street which will eliminate seven railroad crossings. Removing the railroad tracks will save the City significant disbursements when it comes to having to repair and upgrade all of the railroad crossings. The City spent approximately \$176,000 in capital improvement funds to demolish the buildings and clean up the land. In addition, a new metro salt storage facility was constructed in the southern industrial area of Grimes. This facility will potentially reduce costs for metro cities by being able to purchase in larger bulk quantities without storage concerns. \$47,000 was disbursed in fiscal year 2009, \$38,800 in fiscal year 2010 \$38,600 in fiscal year 2011 and \$14,812 was disbursed in fiscal year 2012 as part of the City of Grimes' investment. As was consistent across the State of Iowa, snow removal costs were less significant than in fiscal year 2010 with a reduction of \$15,597 in this area.
- Culture and recreation function spending decreased \$43,648. A majority of this decrease can be accounted for in the Cemetery expansion project. This project added 704 lots to the existing cemetery as well as paving, a gravel parking lot, seeding and a landscaping amenity for a total of \$144,139 expended in fiscal year 2011. After eliminating the Cemetery expansion project, the culture and recreation function actually increased \$100,491. The Library increased a little over \$42,000 due to the hiring of additional staff. The Library has also hired an architect and is 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

of Grimes, 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, which is currently in process, was the hiring of consultants to complete a feasibility study of what realistically could be obtained through fund raising efforts before the issue is brought to a vote of the citizens. Park and recreation staff costs also increased almost \$29,400. Both the Library and the park and recreation staff costs were due to increased programming and needs of the community. In fiscal year 2009, a complete upgrade to energy efficient lighting in the Grimes Community Complex (GCC) was completed at a cost of \$34,552 and in fiscal year 2010 the City completed a HVAC Public Improvement Project to completely convert the GCC's heating and cooling systems. In addition, the City expended \$46,500 to convert a generator and the electrical system in the GCC to be able to sustain power in the event of a power outage. The GCC is the designated shelter in the event of heat or extreme cold emergencies. The Council recently let a \$855,000 project to grade, irrigate, seed and extend utilities through the North Sports Complex located just west of the recently constructed North Ridge Elementary School. This project is still in process. Unfortunately, it was expected to be seeded and have a season of growth underway. However, due to the extreme drought, both sprinkler systems at the South and North Sports Complexes were shut down to conserve water.

- Community and economic development disbursements increased approximately \$19,000 in fiscal year 2009, mostly due to an increase in contributions from the City to the Grimes Chamber and Economic Development Organization, but decreased approximately \$48,000 in fiscal year 2010 because a \$50,000 economic development grant was disbursed in fiscal year 2009. In fiscal year 2011 disbursements increased approximately \$1,200 and in fiscal year 2012 they increased \$8,537. Whenever Hotel/Motel taxes increase, the amount disbursed to the Des Moines Visitors and Convention Bureau increases as well. Notable capital improvements for fiscal year 2010 include the completion of the East 1st Street improvement project, including lighting and beautification, to facilitate the development of Walmart, the YMCA and the development typically surrounding large box users. In addition, SE 37th Street was completed, which included a 5 inch asphalt over to extend the life of the road until a complete rework is needed. The Gateway Drive Extension and SE 11th Signal project was completed and the Edgewood Drive water main extension, which facilitated better water pressure in the Capitol City Area, and the loop of the mains on the east side of Highway 141 was completed. The second concession stand was also completed at the South Sports Complex. This concession was a combination effort between the City of Grimes and the Connor Schnell Family Memorial for the financing of this project. The South James Street Project using ARRA funds was also completed. The focus in fiscal year 2011 was the City's biggest road project ever, the almost \$8,000,000 East 1st Street (aka Highway 44) road improvement project. It was originally scheduled to be completed in the fall of 2010. However, due to excess rain conditions, less than 50 working days were completed. This project provided for a center turn-only lane through the entire city and will then transition into a two lane boulevard on the western section of the developed town. The James Street intersection now has left turn-lanes and a signal was installed at Main and E 1st Street. All in all, this is a beautiful project and has greatly enhanced the transportation system of the City of Grimes. Other projects completed in fiscal year 2011 were the Cemetery expansion project and the preliminary work completed to determine if the old City well could be converted into an aquifer storage recovery (ASR) well which could greatly delay the need for a new expansion to our current water plant. This year the results from the preliminary tests showed the old well should be able to be restored and used as an ASR. The casing was lined after a significant delay due to the need to drill through the old pump to install a new one. Testing for the actual recovery of the well was initially planned for this summer. Again, due to the drought, there wasn't the additional pumping capacity available to be able to fill this well so it could be tested. Plans are to continue later this fall. The Outfall Sewer and Creek restoration project was also let last fall. This project consisted of the

installation of both 48" and 36" sanitary sewer mains needed to increase the flow capacity of the eastern side of the City of Grimes. As well, creek improvements along Little Beaver Creek were completed to clean up and grade the banks to improve the drainage along this channel. The planning for the reconstruction of SE Main continues to be in process and is expected to start in the spring of 2013.

- General government function disbursements decreased approximately \$88,000 in fiscal year 2011 and only increased \$12,388 in fiscal year 2012. Most of the original decrease in fiscal year 2011 was due to the large reduction in legal fees from the previous year when an assessment case went to court and a decrease in liability insurance costs to the General Fund. Increases were noted in health insurance premiums, legal fees, utilities, building and grounds and administrative salaries in fiscal year 2012.
- The City's governmental activities total cash basis net assets decreased 29.3%, or \$2,631,490, from June 30, 2011 to June 30, 2012. A majority of this decrease can be accounted for in the Capital Projects Fund and the Special Revenue, Road Use Tax Fund. The General Fund and Debt Service Fund had increases in net assets. The proceeds from a \$10,000,000 bond issue were received in November 2009. These proceeds repaid the negative fund balances in several of the accounts within the Capital Projects Fund at June 30, 2009 and are waiting to be disbursed on the 1st Street Project, the Gateway Drive Project and the upcoming Sanitary Sewer Main Project. 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 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. All of the projects intended to be financed by the \$5.2 million bond issue in 2008 have been completed. To recap, \$700,000 was received for the purchase of park land adjacent to Northridge Elementary School and the remaining \$4.5 million was for road construction for the South 19th and Little Beaver Assessment Project, the finalization of the 54th Avenue and South 6th Street Assessment Projects and the South 11th Street Assessment Project. Lastly, a new addition to the Cemetery has now been completed. The new addition features the extension of the current roads, 704 new burial plots and an added berm and landscaping to shelter it from the green space to the south which is now being used for soccer fields. This fall, a \$6.0 million bond will be issued to fund the reconstruction of SE Main Street, the North James Street overlay, a NW Transportation Study, Alley Improvements, NW 100th and SE 37th Street Improvements, Autumn Park Drainage Improvements, Chevalia Bridge and Trail work.

The General Fund cash balance increased \$234,589. The Special Revenue, Road Use Tax Fund cash balance decreased \$83,960. The Debt Service Fund cash balance increased \$226,271 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 assessment project. Build America Bond interest is credited in the Debt Service Fund. The Capital Project Fund balance decreased \$ 3,019,270 because of the bond issue payoffs and the Highway 44 project as noted in the previous paragraph. The Capital Project improvement project, Highway 44 project, Park and Recreation, Main Street and the Storm Water Capital accounts are carrying negative balances of \$(177,943), \$(1,172,611), \$(199,094), \$(173,582) and \$(675,704), respectively. The other nonmajor governmental fund cash balances increased \$24,229, mostly due to an increase in employee benefits property tax receipts, county library tax and conservative spending. 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 Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the water system, the sanitary sewer system and solid waste disposal. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

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

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

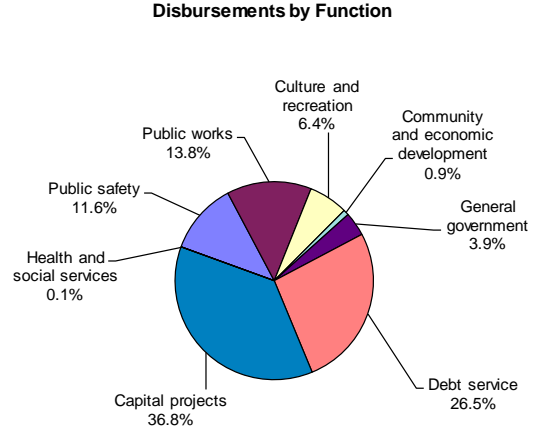
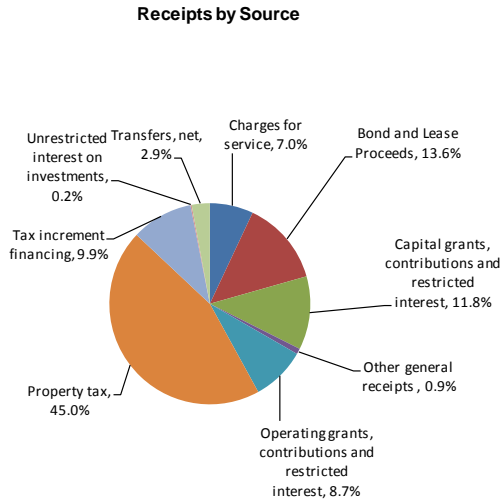
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City, and the Solid Waste Fund.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The cash balances decreased over a year ago, from approximately \$8.968 million to approximately \$6.336 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2012	2011
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 820,337	935,074
Operating grants, contributions and restricted interest	1,027,391	822,418
Capital grants, contributions and restricted interest	1,380,479	3,846,947
General receipts:		
Property tax	5,287,983	5,204,491
Tax increment financing	1,161,927	1,060,037
Unrestricted interest on investments	23,133	35,671
Bond proceeds	1,250,000	-
Lease proceeds	347,310	120,438
Other general receipts	101,694	121,354
Transfers, net	342,840	345,000
Total receipts and transfers	<u>11,743,094</u>	<u>12,491,430</u>
Disbursements:		
Public safety	1,792,889	1,342,355
Public works	2,264,122	1,461,193
Health and social services	5,809	-
Culture and recreation	893,848	937,496
Community and economic development	122,548	114,011
General government	534,360	521,972
Debt service	3,666,018	2,150,932
Capital projects	5,094,990	6,624,078
Total disbursements	<u>14,374,584</u>	<u>13,152,037</u>
Decrease in cash basis net assets	(2,631,490)	(660,607)
Cash basis net assets beginning of year	<u>8,967,834</u>	<u>9,628,441</u>
Cash basis net assets end of year	<u>\$ 6,336,344</u>	<u>8,967,834</u>



The City's total receipts and transfers for governmental activities decreased 6.0%, or \$748,336. The total cost of all programs and services increased 9.3%, or \$1,222,547. No programs were deleted this year and there continues to be an increase in the recreational programming at the Grimes Community Complex. A significant increase in tax receipts resulted from an increase in regular taxable valuation, from \$361,997,729 to \$382,998,224. Regular taxable valuation increased 5.8%, or \$21,000,495. Property tax receipts, not including TIF collections or other city taxes, increased \$83,492. The City also received in loan proceeds for an end loader and a street sweeper totaling \$347,310. The City also received in \$1,187,975 in federal and state funding and reimbursements for the Highway 44 project. A majority of the decrease in receipts is a result of a \$10,000,000 bond issue in November of 2009.

The City's property tax rates for fiscal year 2012 decreased ever so slightly, with a tax rate of \$12.90318 per \$1,000 of taxable valuation versus \$12.91004 per \$1,000 of taxable valuation for fiscal year 2011. The rollback percentage increased from 44.08% to 45.589% from fiscal year 2009 to fiscal year 2010, increased again in fiscal year 2011, from 45.589% to 46.909% and is currently 48.5299%. The net result of the slight tax rate decrease and the increase in the rollback percentage resulted in a net increase in property tax to the property owner. In fiscal year 2009, the tax actually decreased \$26.23 and then increased \$26.55 in fiscal year 2010 so the net effect over the last two prior years was 22 cents! In fiscal year 2011, the difference to a property owner with a home valued at \$150,000 was an increase of \$24.84 because of the rollback increase of over 1.32% of the value of the property. In fiscal year 2012, the net effect of the rollback increase was \$30.87 for the same property. The residential rollback percentage is projected to increase again for fiscal year 2013 to 50.7518% and the tax rate has increased slightly, to \$12.90968 per \$1,000 of taxable valuation. This nominal increase, coupled with the increase in the rollback, has the result of increasing the net city taxes paid by the homeowner of that same \$150,000 home only by \$4.19 given that the valuation of that same home was projected to decrease by 4%. Over the course of three years, the tax impact has increased slightly. Note, however, the tax levy to property owners is affected for 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 cost of all governmental activities this year was approximately \$14.375 million compared to approximately \$13.152 million last year. However, as shown in the Statement of Activities and Net Assets on pages 26-27, the amount taxpayers ultimately financed for these activities was only \$11.15 million because \$1,010,841 of the cost was paid by those directly benefiting from the programs. \$1,027,391 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 \$1,189,975 were received. Overall, the City's governmental activities receipts and transfers, including intergovernmental aid and fees for service, decreased in fiscal year 2012 from \$12,491,430 to \$11,743,094, principally due to the effects of receiving less capital grants,

contributions and restricted interest. The City paid for the remaining “public benefit” portion of governmental activities with \$6,449,910 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 1,949,085	1,631,817
Sewer	1,353,783	1,146,911
Solid waste	240,366	227,419
General receipts:		
Unrestricted interest on investments	-	33
Total receipts	<u>3,543,234</u>	<u>3,006,180</u>
Disbursements and transfers:		
Water	1,493,791	1,548,331
Sewer	861,335	947,920
Solid waste	295,426	283,480
Transfers, net	342,840	345,000
Total disbursements and transfers	<u>2,993,392</u>	<u>3,124,731</u>
Increase (decrease) in cash basis net assets	549,842	(118,551)
Cash basis net assets beginning of year	2,482,200	2,600,751
Cash basis net assets end of year	<u>\$ 3,032,042</u>	<u>2,482,200</u>

Total business type activities receipts for fiscal year 2012 were approximately \$3.54 million compared to approximately \$3.0 million last year. This increase was due primarily to an increase in water and sewer tapping fees which accompany new construction, as well as an overall increase in users. Notably, a decrease in tapping fees was the result of the decrease from approximately \$3.1 million to approximately \$3.0 million from fiscal year 2010 to fiscal year 2011.

The cash balance increased \$549,842 over the prior year because of not only the increase in receipts but a decrease in disbursements as well. Receipts increased 17.9% and disbursements and transfers decreased 4.2%. Thus, the overall effect of the prior year’s increase in net assets of \$668,393 resulted from the increase in water receipts, an increase in sewer receipts as well as increases in water and sewer tapping fees from new construction. Total disbursements and net transfers for the fiscal year decreased from approximately \$3.125 million last year to approximately \$2.993 million for fiscal year 2012. This was a decrease of \$131,339, or 4.2%.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Grimes completed the year, its governmental funds reported a combined fund balance of \$6,336,344, a decrease of \$2,631,490 from last year’s total of \$8,967,834. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$234,589 over the prior year to \$3,681,812. This increase was due to the increase in total valuation resulting in an increase in property tax received as well as large increases in licensing and permitting. General Fund receipts increased \$341,067 and disbursements increased \$598,998. 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 decreased \$489,270 during fiscal year 2009 to \$53,823, \$8,683 during fiscal year 2010 to \$45,140, increased \$306,213 to \$351,353 in fiscal year 2011 and now has decreased \$83,960 to an ending balance of \$267,393. This original decrease was due largely to the purchase

of the old elevator building and property along West 1st Street (Highway 44) which will be needed for right-of-way for the expansion of West 1st Street to a 3-lane roadway and for the cleanup and demolition of this entire area. The ending balance of \$351,353 at June 30, 2011 was held to facilitate road construction projects in fiscal year 2012. The ending balance at June 30, 2012 is also being held to facilitate road construction. The City 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 Fund (TIF) was established years ago to finance projects whereby an investment by the City in infrastructure results in an overall larger tax base. The premise of the use of TIF can be illustrated in this example. The City of Grimes designated the area east of Little Beaver to Highway 141 and south to Urbandale as an urban renewal area. The City passed bonds and used TIF financing to pay for the sewer, water, road improvements and the signals at 54th 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 of Grimes 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 100% of their valuation versus residential valuation which is taxed at 46.909% for fiscal year 2011. 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.

At the end of the fiscal year, the TIF cash balance was \$22,443, a decrease of \$13,349 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, County and School District receive the benefit of the tax revenue. This year, the City certified \$1,175,276.

- The Debt Service Fund cash balance increased \$146,566 to \$1,283,989 during fiscal year 2009, increased to \$1,375,063 during fiscal year 2010, \$1,863,361 during fiscal year 2011 and now has increased \$226,271 to \$2,089,632 during fiscal year 2012. The increases are due to the receipt of developer reimbursement proceeds from the South 19th Street and Little Beaver assessment projects, as well as the 54th Ave. Road assessment project, the South 6th Street assessment project, the SE 37th Street assessment project and the East 1st Street assessment project. The developer reimbursement proceeds will be held until the bonds can be called.
- The Capital Projects Fund cash balance increased from \$(975,129) to \$4,769,777 in fiscal year 2010, decreased \$1,890,004 to \$2,879,773 in fiscal year 2011 and now has

decreased another \$3,019,270 to \$(139,497) in fiscal year 2012. The original increase was due to the timing of the passage of a \$10 million bond issue which paid back the negative balance in this account and is being held for the East 1st Street (Highway 44) and the Trunk Sewer Main projects. The subsequent decrease is due to disbursements on the East 1st Street (Highway 44) project. The current negative balance in the Capital Projects Fund will be reimbursed with additional TIF funds for the North Sports Complex and the passage of the \$6,000,000 bond issue this fall.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- In fiscal year 2011, the Enterprise, Water Fund cash balance decreased \$116,481 to \$1,190,053, due primarily to water receipts decreasing from fiscal year 2010 to fiscal year 2011 due to industry reductions as well as operating costs increasing. In addition, the balance allowed \$200,000 to be transferred to the Capital Projects Fund. In fiscal year 2012 the cash balance increased \$255,294, thus more than making up the difference from fiscal year 2011. Water operations receipts and tapping fees account for this increase. In addition, the drought accounted for the higher consumption as the new sod for all of the new construction warranted constant watering. There was also a decrease in disbursements of \$54,540 from fiscal year 2011 to fiscal year 2012.
- In fiscal year 2011, the Enterprise, Sewer Fund cash balance decreased \$1,009 from \$1,288,135 to \$1,287,126 but now has increased \$292,448 in fiscal year 2012. Receipts increased \$206,872 and disbursements decreased \$86,585. This balance also allowed for \$200,000 to be transferred to the Capital Projects Fund. Again, similar to the Water Fund, the Sewer Fund receipts increased from the increase in housing, new users and sewer tapping fees.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. This amendment was approved on March 13, 2012. This amendment provided for an increase in receipts for intergovernmental in the amount of \$231,798 for road use tax, \$219,500 for charges for service and \$559,482 to provide for the financing of the end loader, street sweeper and an ambulance. In the end, the ambulance wasn't financed. All of the remaining programs were estimated to remain the same. The budget amendment also provided for an increase in disbursements of \$3,594,857. Public safety function disbursements increased \$69,603, mainly due to the increase in engineering costs, both internal and those billed for reimbursement by developers due to the increase in building and permits. Public works function disbursements increased \$453,166, mainly in the road use tax program for increased asphalt and road construction. Culture and recreation function disbursements increased \$21,100 to account for increased programming and improvements to the Grimes Community Complex. Debt service function disbursements increased \$588,745 due to a lease to finance the street sweeper, end loader and ambulance costs. Capital projects function disbursements increased \$2,455,000 due to a delay in the Highway 44 project and costs associated with the SE Main Street project. Lastly, all three business type activities, water, sewer and solid waste, increased \$7,243. Water and sewer increased because of increases in debt service payments and solid waste increased because of increases in personnel and an increase in special collections for yard waste pickups and the spring cleanup. 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.

When all was said and done and the final numbers were calculated as of June 30, 2012, 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 \$71,959 under budget. Parks and recreation was under budget because of savings in mowing, weed control and overseeding due to the drought. In 2009, there was a substantial investment in grub mitigation. That continues to be an aspect of the park system which is monitored. The trees are being monitored as well for the Emerald Ash Borer. This could have a large impact on the budget to mitigate the damage and replant new growth. 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 isn't as desirable. The Library was under budget as they didn't spend all of the amounts budgeted for architectural fees. The public safety function disbursed \$120,349 more than the final budgeted amount, mainly due to a decrease in spending for the Polk County Sheriff's contract, conservative spending by both the Fire and Rescue Departments and less engineering fees in the Building Department which were more than offset by an increase for the purchase of an ambulance. The public works function was over budget by \$112,952. The street department itself was under budget \$74,279, mainly due to savings in wages because of the large decrease in overtime. Snow removal continues to be one of those moving targets when planning for personnel costs for the Iowa winters. The Special Revenue, Road Use Tax Fund also disbursed \$198,913 more than budgeted. The overage in the Road Use Tax Fund disbursements was primarily due to the purchase of an end loader and street sweeper which were originally included in the debt service function budget. Road use tax funds also account for some of the contracted snow removal costs as well as smaller street projects. The balances are carried over from year to year to facilitate larger projects when necessary. The street light category also followed suit and disbursed \$5,680 less than budgeted. The general government function was \$85,483 under budget, mostly due to a large decrease in legal fees (\$50,876) as well as overall building maintenance and miscellaneous fees, which is a catch-all budget item for unexpected smaller unanticipated expenses. The capital projects function typically is under budget as the progress on these large projects is hard to estimate due to weather conditions or other outside factors beyond the normal control of the contractors. The debt service function was \$700,910 over budget. This was mainly due to the refunding of \$1,205,000 of general obligation bonds which was not included in the budget. This was partially offset as \$559,482 was originally included in the debt service budget for the purchase of an end loader, street sweeper and ambulance. The disbursements for the purchase of the end loader and street sweeper were moved to the public works function and the disbursement for the ambulance was moved to the public safety function for financial reporting purposes. The capital projects function was \$3,555,010 under budget. This was mainly due to the timing of the SE Main Street project. As well, water, roads, the GCC, parks and sewer all experienced major variances. The business type activities function, i.e., water, sewer and solid waste, was \$224,425 under budget. The Water Department accounted for \$43,224 of this variance. Plant repairs, building and grounds, sales tax, utilities, chemicals, mains, hydrants, equipment and tools all came in lower than originally estimated. Lime removal was \$14,900 over budget. Meters and accessories, chemicals and testing were over budget, but savings in the other areas offset this overage. The Sewer Utility accounted for \$165,627 of this variance. \$45,088 was left after the bond payments were made because of refinancing. Also, employee wages, equipment maintenance, contracts, line maintenance and utilities came in under budget. Sewer tapping fees also came in \$81,433 under budget due to a proposed developer agreement payoff which wasn't negotiated. Solid waste was also under budget by \$15,574. Overall, spending was \$3,017,867 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 payments of taxes. This accounts for the difference of \$113,939. Obviously, if someone doesn't pay their taxes, 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 receipt received for those services. Other city tax was down \$82,193 because of reductions in the mobile home tax and utility replacement tax. Licenses and permits were over budget by \$113,196 as more permits were pulled in fiscal year 2012. Use of money and property was over the amount budgeted by \$2,628. Intergovernmental was \$1,417,563 more than budgeted due to an additional \$32,142 in road use tax funds, \$6,180 in FEMA funds, \$4,156 in Library tax from Polk County and \$38,938 in township fire fees. In addition \$1,189,975 was received in federal and state grants for the Highway 44 project. Charges for service was also over by \$155,139. Sewer and solid waste collections were all higher than originally estimated due to an increase in industry usage. Water and sewer tapping fees were also higher due to the increase in building permits. Fire and rescue

actually received \$41,838 less in fees than anticipated as the number of ambulance and fire calls seem to fluctuate from year to year, but less may be recovered during this tough economic climate. The City entered into a new agreement with a collection agency in early 2009 to facilitate the percentage of fees actually collected for these calls. The City Council will continue to consider the hardship cases and will waive fees if the situation warrants it. There have been some write-offs this year. Lastly, parks exceeded their receipt expectations by \$6,609. Programming continues to increase as more and more people are taking advantage of the services the City is offering. Special assessments were \$90,504 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 received were \$53,490 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 \$1,850,917 more than budgeted.

DEBT ADMINISTRATION

At June 30, 2012, the City had approximately \$21.358 million in bonds and other long-term debt outstanding as compared to \$23.070 million at June 30, 2011, as shown below. In addition, \$24.934 million was outstanding at June 30, 2010 and \$16.392 million was outstanding at June 30, 2009.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2012	2011
General obligation bonds	\$ 14,770	16,065
Revenue bonds	6,182	6,745
Loan agreements	149	217
Lease-purchase agreements	257	43
Total	\$ 21,358	23,070

Debt increased in fiscal year 2010 because of the \$10,000,000 bond issue in November 2009. As stated above, this bond was issued to finance the following projects: 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 Street Improvements 2009: \$1,300,000, SE 37th Overlay: \$625,000, S James Improvements: \$1,700,000, NW 142nd and 82 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 expended on other infrastructure improvements. In addition, a \$347,310 lease was executed for the purchase of a street sweeper and an end loader in fiscal year 2012. The SRF loans for the water and waste water plants were also refinanced due to the low interest rates. Other than the increase for the bond issue in fiscal year 2010 and the lease, the outstanding debt has decreased because the required payments were made. Prior year debt includes a \$5.2 million bond issue in fiscal year 2008. \$700,000 of the proceeds from this issue was used to purchase parkland south and west of the new Northridge Elementary School. This purchase helped to facilitate a joint driveway with the school that will also be extended to service the parkland. As this parkland is developed, the City and school will develop another 28E agreement for the use of this property similar to what is already in place for South Prairie Elementary School and the current Sports Complex. The remaining \$4.5 million was used to finance the 54th Avenue, South 6th Street and South 11th Street road improvement projects. 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 at June 30, 2011 was approximately \$1,074,100 and \$1,175,276 at June 30, 2012.

The City's bond rating was reevaluated this year and the end result was great news for the City. As reported by Moody's: "Moody's upgrades to Aa3 from A1 the rating on the City of Grimes' (IA)

General Obligation Bonds. Aa3 rating affects \$14.9 million of outstanding GO debt. NEW YORK, May 31, 2012 -- Moody's Investors Service has upgraded to Aa3 from A1 the rating on the City of Grimes' (IA) general obligation unlimited tax debt. The Aa3 rating applies to \$14.9 million of outstanding rated debt."

SUMMARY RATING RATIONALE

The bonds are secured by the City's unlimited general obligation pledge. The upgrade to the Aa3 rating reflects the City's growing, moderately-sized tax base with above average wealth and income levels, strong financial position with ample General Fund reserves and above average debt burden.

STRENGTHS

- Strong financial position characterized by conservative budgeting practices and ample reserves.
- Growing tax base in the Des Moines metro area.

CHALLENGES

- Above average debt burden.
- Limited flexibility to increase the property tax rate.

DETAILED CREDIT DISCUSSION

FIFTH CONSECUTIVE SURPLUS ADDS TO AMPLE GENERAL FUND RESERVES

Grimes' financial position is expected to remain strong due to the City's conservative budgeting practices and ample General Fund reserves. In 2011, the City's fifth consecutive surplus increased General Fund balance to \$3.4 million or a substantial 81.2% of revenues. The City had budgeted a \$214,748 deficit, but experienced positive variances in property tax revenue as well as public safety and general government expenditures. Operating results were similar in fiscal 2010 when a \$471,650 surplus exceeded the budgeted \$115,870 surplus due to public safety and culture and recreation expenditures coming in below budget. Management reports that operations will outperform the budget again in 2012 and projects an ending General Fund balance of \$3.6 million, or a strong 78.6% of revenues. Property taxes are the city's primary revenue source and accounted for 72.3% of General Fund revenues in 2011.

Property tax revenue has grown annually since 2009 due to tax base expansion, while the total property tax rate has declined modestly during the same period. Public safety comprises the largest portion of General Fund expenditures, accounting for 34.1% in 2011, and Grimes contracts with Polk County (GO rated Aaa/stable outlook) 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 the City has approximately \$300,000 of flexibility under the employee benefits levy. While the City has limited flexibility to increase property tax rates, management notes council may elect to use water and sewer revenues to support governmental operations if necessary.

GROWTH TO CONTINUE IN MODERATELY-SIZED DES MOINES AREA TAX BASE

The City's tax base is expected to continue to grow given a favorable location in the Des Moines metropolitan area, healthy local economy and substantial land available for development. Grimes is located approximately 10 miles northwest of Des Moines (GO rated Aa1) with easy access to the Interstate 80 and Interstate 35 transportation corridors. The City's moderately-sized \$690 million tax base is primarily residential and has grown at a rapid average annual rate of 12.6% 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 prior decades. The City is bordered to the north and west by unincorporated land and the city annexed 974 developable acres in Dallas County (GO rated Aa2) in 2007. Management conservatively projects the tax base will grow 4% annually going forward. Polk County's 5.8% unemployment rate in March 2012 approximates the state rate (5.7%) and remains well below the national rate (8.4%) for the same period. Resident income levels exceed state and national medians, with median family income representing 137.3% and 134.7%

of the state and national medians, respectively according to 2006 to 2010 estimates from the American Community Survey.

ABOVE AVERAGE DEBT BURDEN WITH NEAR-TERM BORROWING PLANS

Grimes' debt burden is expected to remain above average, but is mitigated by rapid principal retirement. Direct debt represents an above average 2.4% of full value while overall debt, primarily consisting of the City's share of Polk County and Dallas Center-Grimes Community School District (GO rated Aa3/positive outlook) debt, represents 5.8% of full value. Amortization is rapid with 88.2% of principal retired within 10 years. Future borrowing plans include \$6 million new debt expected to be issued in fall 2012 to fund main street reconstruction and wastewater treatment plant improvements. All of the City's debt is fixed rate and the city is not party to any derivative or swap agreements.

WHAT COULD CHANGE THE RATING – UP

- Substantial tax base expansion.
- Maintenance of ample fund balance and liquidity.

WHAT COULD CHANGE THE RATING – DOWN

- Material declines in fund balance and liquidity to below similarly rated entities.
- Deterioration of the city's tax base or demographic profile.
- Material increases in debt burden.

KEY STATISTICS

2010 Census population: 8,246 (61.7% increase since 2000).

2011 Full valuation: \$690 million.

2006-2010 Per capita income: \$28,789 (113.6% of IA; 105.3% of U.S.).

2006-2010 Median family income: \$84,842 (137.3% of IA; 134.7% of U.S.).

Polk County unemployment (March 2012): 5.8%.

Fiscal 2011 General Fund balance (cash basis): \$3.4 million (81.2% of revenues).

Debt burden: 5.8% (2.4% direct).

Outstanding parity debt: \$16.1 million (\$14.9 million rated by Moody's).

The City's outstanding general obligation debt, including annually appropriated rebate agreements of \$919,787, total approximately \$16.16 million and is significantly below its constitutional debt limit of approximately \$34.45 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 2013 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 has been used to subsidize this Enterprise Fund. As well, the City Council is considering a storm water utility fee. This fee will be used to pay for the NPDES Phase II Stormwater Regulations as well as much needed water way improvements. 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 \$548,084,271 for the 2010 fiscal year budget, \$622,875,532 in fiscal year 2011, \$653,675,782 in fiscal year 2012 and now is \$671,363,180. This is an increase of 39.5% over fiscal year 2009, 22.5%, or \$123,278,909, over fiscal year 2010, 7.8%, or \$48,487,648, over fiscal year 2011 and 2.7%, or \$17,687,398, over fiscal year 2012. General property tax receipts are projected to increase \$233,979. 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 units 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 and in fiscal year 2012 there were 8 multi-family permits valued at \$3,879,960, 4 commercial permits valued at \$9,191,831 and 115 single family permits valued at \$16,720,225. Consistent with all of the budget variances due to the increase in building, these numbers reaffirm the increases. It should be noted most of the existing plats are being built out, but there were a few significant actions taken by developers. First was Autumn park rezone which rezoned 97.8 acres from R-2 60, R-2 70, R-3 to R-4 (Planned Residential Development District) and 14.8 acres remained C-2 (General and Highway Service Commercial District). The final plat 2 Chevalia Trace Plat 2 consists of 8.1 acres with 29 single family lots and Grimes Lots, LLC. Autumn Park Plat 1 consists of 17.31 acres with 43 lots. In addition, economic incentives have been provided for Hubbell and ServPro. A few more are being negotiated to facilitate further economic growth.

In addition, the economy is a factor. This is from the U.S. Census Bureau from the 2010. We do know our population increased 61.8% 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 of Grimes currently has continuing projects under construction, as follows: The ASR (aquifer storage recovery) well project is still underway. 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 that 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 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. The \$8.0 million project for the widening and complete replacement of East/West 1st Street (Highway 44) started in May 2010 experienced unexpected delays with the above average rainfalls. The eastern half of this improvement project was delayed and was completed by late November of this year. Some seeding and small grading issues still remain. The South James Street project was completed. The NE Edgewood Drive water main project, the Gateway Drive extension and the signals at SE 11th Street are now completed. Projected to start yet this fall are the Outfall Trunk sewer project needed to meet the capacity requirements in the eastern sewer extending from the Wastewater plant along Taylor Estates and the water way improvements needed to increase the capacity of the creek for large storm events. In addition, FEMA projects were completed this year from the \$46,312 received from FEMA for damage caused by the floods of 2010. Over the last three years, the demolition of the elevator buildings, the GCC HVAC project, the Comprehensive Plan, Map updates, Phase I Storm Water

Implementation, SE Capitol City Pavement repairs, E 1st St Improvements 2009, SE 37th Overlay, NW 142nd and 82nd Ave overlay, NW 78th overlay, water tower painting, QT Improvements, the South 19th Street Extension/Little Beaver Assessment, Grimes Mapping, Phase II Storm Water Permit, Grimes Storm Sewer Mapping, Xenia Water Agreement, South 6th Street Improvements and Destination Drive street improvements have all been completed. A new Historical room was completed as an Eagle Scout project and a church is leasing and has renovated three rooms and now will be adding a fourth which will be open to public use for receptions or large meetings. The City also completed a project adding 704 new spaces to the existing Sunnyhill Cemetery. The project also included the extension of the existing roads, a berm and landscaping, as well as a new parking lot on the south side of the area. The green space to the south of the existing cemetery will be used for soccer and flag football practices. In fiscal year 2011, City Council let a \$855,000 project for the grading, seeding and irrigation of the new North Sports Complex. This will add more softball and soccer fields to help alleviate an already overloaded South Sports Complex and to keep up with the rapid growth of one of the fastest growing cities in the State of Iowa. Unfortunately, this project was delayed due to the need to stop irrigation during the drought. Note that the first project stated on this long list would have provided the needed additional water so conservation would not have been needed. The SE Main Street project is on the horizon after many years of planning. This will provide for the construction of the road and utilities on SE Main.

In a prior year, the City of Grimes 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.

Just recently the 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 2013. Amounts available for appropriation in the operating budget for governmental activities are \$8.422 million, decreasing from the final fiscal year 2012 actual operating receipts for governmental activities of \$9.803 million. The decrease is primarily caused by a reduction in intergovernmental receipts as a result of the Highway 44 project having been substantially completed during fiscal year 2012. \$54,419 less in property tax for debt service was certified because payments for interest decrease over time. Also, \$170,073 more in TIF was certified than was received in fiscal year 2012. Licenses and permits are budgeted to be approximately \$113,000 less than last year only because the full impact of the housing market was unknown in March so a conservative number was used. The Council also levied \$126,200 more in employee benefits to mitigate the overall tax impact on the General Fund and keep the tax rate the same. Water receipts are budgeted higher than fiscal year 2012 by \$92,015. However, this number may again be too low as the receipts in fiscal year 2012 came in higher than originally estimated. Sewer is budgeted lower than the actual receipts in fiscal year 2012 and 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, initiate new capital improvement projects and plan for future projects. Budgeted disbursements, disregarding capital improvements and debt service, are expected to decrease \$237,423 from actual disbursements of \$5.613 million to \$5.376 million, or 4.2%. This change is mainly due to a decrease in large equipment purchases of around \$515,000 as well as an increase in public safety for the Polk County Sheriff's contract of \$43,262 and an increase of \$200,070 for fire and rescue due to an

increase in personnel for the new public health and safety building on the western edge of Johnston. The Fire Department now has three full time and one full-time equivalent on staff during the day in Grimes and will have six additional personnel to man the new building. All of the rest of the departments were asked to keep their costs steady and to save 3% in their budgets to accommodate a 3% increase in payroll costs. If all of the estimates are realized, the City's budgeted General Fund cash balance is expected to decrease about \$279,179. It should be noted, however, the General Fund balance was expected to decrease \$80,733 in fiscal year 2012, but it actually increased \$234,589.

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

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2012

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,792,889	601,846	14,497	-
Public works	2,264,122	-	782,142	-
Health and social services	5,809	-	-	-
Culture and recreation	893,848	170,117	35,163	-
Community and economic development	122,548	-	5,521	-
General government	534,360	12,629	42,725	-
Debt service	3,666,018	-	147,343	190,504
Capital projects	5,094,990	35,745	-	1,189,975
Total governmental activities	14,374,584	820,337	1,027,391	1,380,479
Business type activities:				
Water	1,493,791	1,949,085	-	-
Sewer	861,335	1,353,783	-	-
Solid waste	295,426	240,366	-	-
Total business type activities	2,650,552	3,543,234	-	-
Total	\$ 17,025,136	4,363,571	1,027,391	1,380,479
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
General obligation refunding bond proceeds				
Lease proceeds				
Unrestricted interest on investments				
Other general receipts				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Debt service				
Streets				
Urban renewal purposes				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(1,176,546)	-	(1,176,546)
(1,481,980)	-	(1,481,980)
(5,809)	-	(5,809)
(688,568)	-	(688,568)
(117,027)	-	(117,027)
(479,006)	-	(479,006)
(3,328,171)	-	(3,328,171)
(3,869,270)	-	(3,869,270)
(11,146,377)	-	(11,146,377)
-	455,294	455,294
-	492,448	492,448
-	(55,060)	(55,060)
-	892,682	892,682
(11,146,377)	892,682	(10,253,695)
3,735,705	-	3,735,705
1,552,278	-	1,552,278
1,161,927	-	1,161,927
1,250,000	-	1,250,000
347,310	-	347,310
23,133	-	23,133
101,694	-	101,694
342,840	(342,840)	-
8,514,887	(342,840)	8,172,047
(2,631,490)	549,842	(2,081,648)
8,967,834	2,482,200	11,450,034
\$ 6,336,344	3,032,042	9,368,386
\$ 2,089,092	243,104	2,332,196
267,393	-	267,393
22,443	-	22,443
414,561	-	414,561
3,542,855	2,788,938	6,331,793
\$ 6,336,344	3,032,042	9,368,386

City of Grimes

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

As of and for the year ended June 30, 2012

	Special Revenue		
	General	Road Use Tax	Tax Increment Financing
Receipts:			
Property tax	\$ 3,238,411	-	-
Tax increment financing	-	-	1,161,927
Other city tax	243,855	-	-
Licenses and permits	345,021	-	-
Use of money and property	35,762	-	-
Intergovernmental	60,692	782,142	-
Charges for service	355,207	-	-
Special assessments	-	-	-
Miscellaneous	74,522	-	-
Total receipts	4,353,470	782,142	1,161,927
Disbursements:			
Operating:			
Public safety	1,783,639	-	-
Public works	1,077,210	1,186,912	-
Health and social services	-	-	-
Culture and recreation	885,699	-	-
Community and economic development	122,548	-	-
General government	534,360	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	4,403,456	1,186,912	-
Excess (deficiency) of receipts over (under) disbursements	(49,986)	(404,770)	1,161,927
Other financing sources (uses):			
General obligation refunding bond proceeds	-	-	-
Lease proceeds	-	347,310	-
Operating transfers in	344,575	-	-
Operating transfers out	(60,000)	(26,500)	(1,175,276)
Total other financing sources (uses)	284,575	320,810	(1,175,276)
Net change in cash balances	234,589	(83,960)	(13,349)
Cash balances beginning of year, as restated	3,447,223	351,353	35,792
Cash balances end of year	\$ 3,681,812	267,393	22,443
Cash Basis Fund Balances			
Restricted for:			
Debt service	\$ -	-	-
Streets	-	267,393	-
Urban renewal purposes	-	-	22,443
Other purposes	-	-	-
Unassigned	3,681,812	-	-
Total cash basis fund balances	\$ 3,681,812	267,393	22,443

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
1,552,278	-	354,745	5,145,434
-	-	-	1,161,927
-	-	-	243,855
-	-	-	345,021
-	35,745	5,521	77,028
147,343	1,189,975	13,009	2,193,161
-	-	-	355,207
190,504	-	-	190,504
388	-	15,897	90,807
1,890,513	1,225,720	389,172	9,802,944
-	-	9,250	1,792,889
-	-	-	2,264,122
-	-	5,809	5,809
-	-	8,149	893,848
-	-	-	122,548
-	-	-	534,360
3,666,018	-	-	3,666,018
-	5,094,990	-	5,094,990
3,666,018	5,094,990	23,208	14,374,584
(1,775,505)	(3,869,270)	365,964	(4,571,640)
1,250,000	-	-	1,250,000
-	-	-	347,310
751,776	850,000	2,840	1,949,191
-	-	(344,575)	(1,606,351)
2,001,776	850,000	(341,735)	1,940,150
226,271	(3,019,270)	24,229	(2,631,490)
1,863,361	2,879,773	390,332	8,967,834
2,089,632	(139,497)	414,561	6,336,344
2,089,632	-	-	2,089,632
-	-	-	267,393
-	-	-	22,443
-	-	414,561	414,561
-	(139,497)	-	3,542,315
2,089,632	(139,497)	414,561	6,336,344

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, 2012

	Enterprise			Total
	Water	Sewer	Nonmajor Solid Waste	
Operating receipts:				
Charges for service	\$ 1,949,085	1,353,783	240,366	3,543,234
Operating disbursements:				
Business type activities	1,089,980	477,856	295,426	1,863,262
Excess (deficiency) of operating receipts over (under) operating disbursements	859,105	875,927	(55,060)	1,679,972
Non-operating disbursements:				
Debt service	(403,811)	(383,479)	-	(787,290)
Excess (deficiency) of receipts over (under) disbursements	455,294	492,448	(55,060)	892,682
Operating transfers in	-	-	57,160	57,160
Operating transfers out	(200,000)	(200,000)	-	(400,000)
Total transfers in (out)	(200,000)	(200,000)	57,160	(342,840)
Net change in cash balances	255,294	292,448	2,100	549,842
Cash balances beginning of year	1,190,053	1,287,126	5,021	2,482,200
Cash balances end of year	\$ 1,445,347	1,579,574	7,121	3,032,042
Cash Basis Fund Balances				
Reserved for debt service	\$ 156,426	86,678	-	243,104
Unreserved	1,288,921	1,492,896	7,121	2,788,938
Total cash basis fund balances	\$ 1,445,347	1,579,574	7,121	3,032,042

See notes to financial statements.

City of Grimes

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Grimes is a political subdivision of the State of Iowa located in Polk County. It was first incorporated in 1904 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

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

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

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for 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 are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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 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, 2012, disbursements exceeded the amounts budgeted in the public safety, public works and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$59,107 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		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2013	\$ 1,350,000	618,853	587,000	185,460	1,937,000	804,313	2,741,313
2014	1,390,000	581,303	609,000	167,850	1,999,000	749,153	2,748,153
2015	1,425,000	538,483	632,000	149,580	2,057,000	688,063	2,745,063
2016	1,475,000	490,420	657,000	130,620	2,132,000	621,040	2,753,040
2017	1,275,000	436,463	684,000	110,910	1,959,000	547,373	2,506,373
2018-2022	6,115,000	1,340,802	3,013,000	230,310	9,128,000	1,571,112	10,699,112
2023-2024	1,740,000	141,595	-	-	1,740,000	141,595	1,881,595
Total	\$ 14,770,000	4,147,919	6,182,000	974,730	20,952,000	5,122,649	26,074,649

General Obligation Refunding Bonds

On September 1, 2011, the City issued \$1,250,000 of general obligation refunding bonds for the current refunding of \$1,205,000 of general obligation refunding bonds issued January 1, 2002. The bonds bear interest at .60% to 1.50% per annum and mature on June 1, 2016. The refunding was undertaken to reduce total debt service payments over the next four years by \$88,425 and resulted in an economic gain of \$85,502.

Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$5,976,000 of water revenue bonds issued in December 2000. Proceeds from the bonds provided financing for the construction of water main extensions. 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 50% of net receipts. The total principal and interest remaining to be paid on the bonds is \$3,708,190. For the current year, principal and interest paid and total customer net receipts were \$402,060 and \$859,105, 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 45% of net receipts. The total principal and interest remaining to be paid on the bonds is \$3,448,540. For the current year, principal and interest paid and total customer net receipts were \$363,290 and \$875,927, respectively.

As of June 30, 2011, the Iowa Finance Authority reduced the indirect rates on the water and sewer revenue bonds to 3.0% per annum. The agreements now require a .05% annual servicing fee. The resolutions providing for the issuance of the water and sewer revenue bonds issued under a loan agreement between the City of Grimes, the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. include the following provisions:

- (1) The bonds will only be redeemed from the future earnings of the enterprise activities and the bond holders hold a lien on the future earnings of the funds.
- (2) Sufficient monthly transfers shall be made to separate water and sewer revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.
- (3) User rates shall be established at a level which produce and maintain net 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 March 22, 2005, the City entered into a loan agreement with a local bank to borrow an amount not to exceed \$500,000 to purchase a fire truck. The amount actually borrowed totaled \$498,681. The loan bears interest at rates ranging from 3.05% to 4.58% per annum and matures on July 1, 2014. The City began making annual principal payments of \$50,000 plus interest beginning June 1, 2006. The loan will be repaid from collections of a debt service levy on all taxable property in the City.

A summary of the annual principal and interest requirements to maturity for the loan agreement is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2013	4.38%	\$ 50,000	6,660	56,660
2014	4.48	50,000	4,470	54,470
2015	4.58	48,681	2,230	50,911
Total		\$ 148,681	13,360	162,041

Lease-Purchase Agreements

On July 15, 2010 and August 9, 2011, the City entered into lease-purchase agreements to lease a truck, snow plow, wheel loader and sweeper. The following is a schedule of the future minimum lease payments and the present value of net minimum lease payments under the agreements in effect at June 30, 2012:

Year Ending June 30,	Amount
2013	\$ 73,227
2014	99,215
2015	99,215
Total minimum lease payments	271,657
Less amount representing interest	(14,317)
Present value of net minimum lease payments	\$ 257,340

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$113,548, \$95,849 and \$88,277, respectively, equal to the required contributions for each year.

(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 21 active and no retired members in the plan. Retired participants must be 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under 65 would 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 \$1,200 for family coverage. For the year ended June 30, 2012, the City contributed \$264,599 and no 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, 2012, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 76,000
Compensatory time	16,000
Sick leave	36,000
Total	<u>\$ 128,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Employee Benefits	<u>\$ 344,575</u>
Special Revenue: Metro Waste Authority	General	<u>2,840</u>
Debt Service	Special Revenue: Road Use Tax	26,500
	Tax Increment Financing	<u>725,276</u>
		<u>751,776</u>
Capital Projects	Special Revenue: Tax Increment Financing	450,000
	Enterprise: Water	200,000
	Sewer	<u>200,000</u>
		<u>850,000</u>
Enterprise: Solid Waste	General	<u>57,160</u>
Total		<u>\$ 2,006,351</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 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150% 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, 2012 were \$132,128.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, 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. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

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

The City self funds health coverage for its employees. The plan is funded by the City and is administrated by the City. The City assumes liability for the difference in deductibles from the plan for any amounts over \$250 individual and \$500 family. The City also self-insures the co-pay for anything over the amounts of \$15 per office visit. Monthly payments of claims are paid from the City's General Fund. During the year ended June 30, 2012, the City transferred \$12,534 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 four 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 \$1,216,705. The agreements do not include provisions for payment of interest.

During the year ended June 30, 2012, the City rebated \$280,897 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, 2012 is \$734,816.

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 future tapping fees as connections are made to the system for sanitary sewer extensions and sanitary sewer lift station costs paid by the developer. The maximum to be paid under this development agreement is the lesser of actual costs paid by the developer or \$434,402. The development agreement is in effect until fully reimbursed. During the year ended June 30, 2012, the City reimbursed the developer \$18,567 from sewer tapping fees. The outstanding principal balance on this agreement at June 30, 2012 is \$277,351.

(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, 2012, the outstanding loan balance is \$20,781.

(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, National Association, Des Moines, Iowa. The proceeds of the note are to be paid directly to or at the direction of Special Olympics Iowa, Inc. for payment of project costs.

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

(12) Construction Commitments

The City has entered into construction contracts totaling approximately \$9,305,673. As of June 30, 2012, costs of \$8,656,328 had been paid on the contracts. The remaining \$649,345 will be paid as work on these projects progresses.

(13) Deficit Balance

The Capital Projects Fund had a deficit balance of \$139,497 at June 30, 2012. The deficit balance was a result of costs incurred but not yet reimbursed.

(14) Subsequent Events

On August 14, 2012, the City authorized the issuance of not to exceed \$3,500,000 in Senior Housing Revenue Refunding Notes, Series 2012, under the provisions of Chapter 419 of the Code of Iowa. 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.

On October 9, 2012, the City issued \$6,000,000 of general obligation corporate purpose bonds for the purpose of paying the cost of planning, designing and constructing street, alley, culvert and storm water drainage improvements and constructing pedestrian trail and bridge improvements at an existing City park. The principal and interest on the notes are payable from an annual debt service levy.

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, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required To Be Budgeted	Net
Receipts:				
Property tax	\$ 5,145,434	-	-	5,145,434
Tax increment financing	1,161,927	-	-	1,161,927
Other city tax	243,855	-	-	243,855
Licenses and permits	345,021	-	-	345,021
Use of money and property	77,028	-	-	77,028
Intergovernmental	2,193,161	-	-	2,193,161
Charges for service	355,207	3,543,234	-	3,898,441
Special assessments	190,504	-	-	190,504
Miscellaneous	90,807	-	8,317	82,490
Total receipts	9,802,944	3,543,234	8,317	13,337,861
Disbursements:				
Public safety	1,792,889	-	9,250	1,783,639
Public works	2,264,122	-	-	2,264,122
Health and social services	5,809	-	-	5,809
Culture and recreation	893,848	-	-	893,848
Community and economic development	122,548	-	-	122,548
General government	534,360	-	-	534,360
Debt service	3,666,018	-	-	3,666,018
Capital projects	5,094,990	-	-	5,094,990
Business type activities	-	2,650,552	-	2,650,552
Total disbursements	14,374,584	2,650,552	9,250	17,015,886
Excess (deficiency) of receipts over (under) disbursements	(4,571,640)	892,682	(933)	(3,678,025)
Other financing sources (uses), net	1,940,150	(342,840)	-	1,597,310
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(2,631,490)	549,842	(933)	(2,080,715)
Balances beginning of year	8,967,834	2,482,200	5,562	11,444,472
Balances end of year	\$ 6,336,344	3,032,042	4,629	9,363,757

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
5,031,495	5,031,495	113,939
1,175,276	1,175,276	(13,349)
326,048	326,048	(82,193)
231,825	231,825	113,196
74,400	74,400	2,628
543,800	775,598	1,417,563
3,523,802	3,743,302	155,139
100,000	100,000	90,504
29,000	29,000	53,490
11,035,646	11,486,944	1,850,917
1,593,687	1,663,290	(120,349)
1,698,004	2,151,170	(112,952)
12,000	12,000	6,191
944,707	965,807	71,959
131,558	131,558	9,010
619,843	619,843	85,483
2,376,363	2,965,108	(700,910)
6,195,000	8,650,000	3,555,010
2,867,734	2,874,977	224,425
16,438,896	20,033,753	3,017,867
(5,403,250)	(8,546,809)	4,868,784
3,000,006	3,420,988	(1,823,678)
(2,403,244)	(5,125,821)	3,045,106
11,450,034	11,450,034	(5,562)
9,046,790	6,324,213	3,039,544

City of Grimes

Notes to Other Information – Budgetary Reporting

June 30, 2012

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, one budget amendment increased budgeted disbursements by \$3,594,857. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety, public works and debt service functions.

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, 2012

	Employee Benefits	Economic Development Revolving Loan	Metro Waste Authority
Receipts:			
Property tax	\$ 354,745	-	-
Use of money and property	-	5,521	-
Intergovernmental	-	-	-
Miscellaneous	-	-	-
Total receipts	354,745	5,521	-
Disbursements:			
Operating:			
Public safety	-	-	-
Health and social services	-	-	-
Culture and recreation	-	-	-
Total disbursements	-	-	-
Excess (deficiency) of receipts over (under) disbursements	354,745	5,521	-
Other financing sources (uses):			
Operating transfers in	-	-	2,840
Operating transfers out	(344,575)	-	-
Total other financing sources (uses)	(344,575)	-	2,840
Net change in cash balances	10,170	5,521	2,840
Cash balances beginning of year	112,882	189,531	(2,840)
Cash balances end of year	\$ 123,052	195,052	-
Cash Basis Fund Balances			
Restricted for other purposes	\$ 123,052	195,052	-

See accompanying independent auditor's report.

Special Revenue				
Grimes Fire and Rescue Association	FEMA Grant	Library	Rolow Memorial	Total
-	-	-	-	354,745
-	-	-	-	5,521
-	6,180	6,829	-	13,009
8,317	-	7,580	-	15,897
8,317	6,180	14,409	-	389,172
9,250	-	-	-	9,250
-	5,809	-	-	5,809
-	-	8,149	-	8,149
9,250	5,809	8,149	-	23,208
(933)	371	6,260	-	365,964
-	-	-	-	2,840
-	-	-	-	(344,575)
-	-	-	-	(341,735)
(933)	371	6,260	-	24,229
5,562	33,869	49,495	1,833	390,332
4,629	34,240	55,755	1,833	414,561
4,629	34,240	55,755	1,833	414,561

City of Grimes
Schedule of Indebtedness
Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Corporate purpose	Jan 1, 2002	4.00-4.70%	\$ 3,200,000
Corporate purpose	Mar 1, 2003	2.00-4.00	2,650,000
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
Total			
Revenue bonds:			
Water	Dec 19, 2000	3.53-3.84% *	\$ 5,976,000
Sewer	Dec 19, 2000	4.30 *	5,372,000
Total			
Loan agreements:			
Fire truck	Mar 22, 2005	3.05-4.58%	\$ 498,681
Ambulance	Sep 6, 2005	4.79	119,522
Total			
Lease-purchase agreements:			
Truck and snow plow	Dec 3, 2007	5.35%	\$ 101,872
Truck and snow plow	Jul 15, 2010	3.87	120,438
Wheel loader and sweeper	Aug 9, 2011	2.71	347,310
Total			

* As of June 1, 2011, the Iowa Finance Authority reduced the interest rates on the water and sewer revenue bonds to 3.0% per annum. The agreements also require a .05% annual servicing fee.

** Although the final lease agreement was signed on August 11, 2011 and the lease proceeds were received on January 25, 2012, the City made a rental payment of \$73,227 on June 14, 2011.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
1,205,000	-	1,205,000	-	15,508
1,430,000	-	180,000	1,250,000	53,250
4,115,000	-	300,000	3,815,000	166,310
9,315,000	-	595,000	8,720,000	420,980
-	1,250,000	265,000	985,000	9,518
\$ 16,065,000	1,250,000	2,545,000	14,770,000	665,566
3,502,000	-	297,000	3,205,000	105,060
3,243,000	-	266,000	2,977,000	97,290
\$ 6,745,000	-	563,000	6,182,000	202,350
198,681	-	50,000	148,681	8,780
18,687	-	18,687	-	895
\$ 217,368	-	68,687	148,681	9,675
21,311	-	21,311	-	1,250
94,450	-	45,397	49,053	6,579
(73,227) **	347,310	65,796	208,287	7,430
\$ 42,534	347,310	132,504	257,340	15,259

City of Grimes
Bond Maturities
June 30, 2012

Year Ending June 30,	General Obligation Bonds								Total
	Corporate Purpose Issued Mar 1, 2003		Corporate Purpose Issued Aug 1, 2007		Corporate Purpose Issued Nov 1, 2009		Corporate Purpose Issued Sept 1, 2011		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2013	3.50%	\$ 185,000	4.00%	\$ 315,000	2.75%	\$ 605,000	.75%	\$ 245,000	1,350,000
2014	3.60	195,000	4.00	330,000	3.25	620,000	1.00	245,000	1,390,000
2015	3.70	200,000	4.00	340,000	3.75	640,000	1.25	245,000	1,425,000
2016	3.80	215,000	4.00	355,000	4.25	655,000	1.50	250,000	1,475,000
2017	3.90	225,000	4.00	370,000	4.65	680,000			1,275,000
2018	4.00	230,000	4.05	385,000	5.00	700,000			1,315,000
2019		-	4.05	405,000	5.00	725,000			1,130,000
2020		-	4.10	420,000	5.00	755,000			1,175,000
2021		-	4.10	440,000	5.15	785,000			1,225,000
2022		-	4.10	455,000	5.30	815,000			1,270,000
2023		-		-	5.35	850,000			850,000
2024		-		-	5.40	890,000			890,000
Total		<u>\$ 1,250,000</u>		<u>\$ 3,815,000</u>		<u>\$ 8,720,000</u>		<u>\$ 985,000</u>	<u>14,770,000</u>

See accompanying independent auditor's report.

Revenue Bonds						
Water			Sewer			
Issued Dec 19, 2000			Issued Dec 19, 2000			
Interest Rates		Total	Interest Rates		Amount	Total
3.00%	\$	309,000	3.00%	\$	278,000	587,000
3.00		319,000	3.00		290,000	609,000
3.00		330,000	3.00		302,000	632,000
3.00		342,000	3.00		315,000	657,000
3.00		355,000	3.00		329,000	684,000
3.00		367,000	3.00		343,000	710,000
3.00		381,000	3.00		358,000	739,000
3.00		394,000	3.00		373,000	767,000
3.00		408,000	3.00		389,000	797,000
		-			-	-
		-			-	-
		-			-	-
		<u>3,205,000</u>			<u>\$ 2,977,000</u>	<u>6,182,000</u>

City of Grimes

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

For the Last Ten Years

	2012	2011	2010	2009
Receipts:				
Property tax	\$ 5,145,434	5,033,717	4,461,334	3,805,022
Tax increment financing	1,161,927	1,060,037	812,070	881,205
Other city tax	243,855	226,812	215,732	197,810
Licenses and permits	345,021	261,512	349,221	184,396
Use of money and property	77,028	146,295	91,697	282,917
Intergovernmental	2,193,161	4,219,426	1,594,655	560,122
Charges for service	355,207	291,711	247,272	269,886
Special assessments	190,504	273,936	189,244	60,230
Miscellaneous	90,807	512,549	1,067,568	1,715,428
Total	\$ 9,802,944	12,025,995	9,028,793	7,957,016
Disbursements:				
Operating:				
Public safety	\$ 1,792,889	1,342,355	1,267,021	1,126,024
Public works	2,264,122	1,461,193	1,421,463	1,660,313
Health and social services	5,809	-	-	-
Culture and recreation	893,848	937,497	738,238	778,958
Community and economic development	122,548	114,011	112,859	160,916
General government	534,360	521,971	609,524	577,086
Debt service	3,666,018	2,150,932	1,631,804	1,585,293
Capital projects	5,094,990	6,624,078	7,150,402	4,089,799
Total	\$ 14,374,584	13,152,037	12,931,311	9,978,389

See accompanying independent auditor's report.

2008	2007	2006	2005	2004	2003
3,239,293	2,853,663	2,502,802	2,307,906	2,097,510	1,950,430
966,128	761,226	817,073	670,298	778,617	339,941
198,987	112,067	68,100	107,372	17,606	73,911
427,871	425,331	355,345	295,902	199,711	181,354
311,866	154,674	101,908	123,906	87,329	51,408
582,316	1,073,834	890,894	1,378,470	566,563	572,297
252,863	240,383	414,290	426,201	182,481	118,126
37,859	49,060	137,137	437,247	-	-
1,678,958	1,756,010	1,428,522	2,669,863	31,724	278,697
7,696,141	7,426,248	6,716,071	8,417,165	3,961,541	3,566,164
1,066,345	824,398	1,139,269	1,430,441	671,961	566,187
1,045,823	767,595	684,261	771,074	680,222	873,301
-	6,067	33,583	39,000	48,000	42,250
575,730	480,494	542,363	411,536	354,637	388,090
141,481	58,799	128,219	57,634	47,633	37,318
497,589	486,222	499,030	445,296	383,215	338,916
1,834,602	1,371,799	1,413,924	1,092,771	900,224	686,192
4,379,280	5,092,309	3,362,209	4,817,303	2,406,198	2,601,271
9,540,850	9,087,683	7,802,858	9,065,055	5,492,090	5,533,525

City of Grimes



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grimes, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 24, 2013. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Grimes is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Grimes' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Grimes' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Grimes' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting we consider to be a material weakness and another deficiency we consider to be a significant deficiency.

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 of Grimes' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (B) to be a significant deficiency.

Compliance and Other Matters

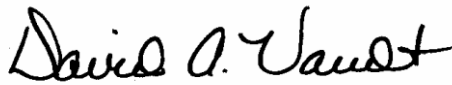
As part of obtaining reasonable assurance about whether the City of Grimes' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 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 identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusion on the City's responses, we did not audit the City of Grimes' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Grimes and other parties to whom the City of Grimes may report and is not intended to be and should not be used by anyone other than these specified parties.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 24, 2013

City of Grimes

Schedule of Findings

Year ended June 30, 2012

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Financial Reporting – During the audit, we identified a material amount of equipment purchase disbursements misposted to the Debt Service Fund rather than the General and Special Revenue, Road Use Tax Funds. These amounts were also misposted to the debt service function rather than the public safety and public works functions. Lease proceeds for one of the equipment purchases were also misposted to the Debt Service Fund rather than the Special Revenue, Road Use Tax Fund. Adjustments were subsequently made by the City to properly report these amounts in the City’s financial statements.

During the audit, we also identified a material amount of general obligation refunding bond proceeds and a material amount of debt refunded which had not been recorded. Adjustments were subsequently made by the City to properly report these amounts in the City’s financial statements.

Recommendation – The City should implement procedures to ensure equipment disbursements, lease proceeds and debt refunding issuances are properly recorded in the City’s financial statements.

Response – The City will ensure going forward equipment purchases are posted to the General Fund or the Special Revenue, Road Use Tax Fund, whichever is applicable. The actual amount of refunding proceeds and payoffs will be posted in the Debt Service Fund.

Conclusion – Response accepted.

- (B) Building Permits – The City’s log used to track permit issuances, including permit number, date permit pulled, date permit returned, receipt number, receipt date and amount of receipt, was not reconciled to collections posted to the accounting system to ensure accuracy and completeness. Also, no independent review was conducted.

Recommendation – The City should ensure the permit log is being reconciled monthly to the collections per the accounting system to ensure completeness. The log/reconciliation should also be reviewed by an independent person.

Response – The City of Grimes has already implemented a reconciliation process to ensure all of the building permits are accounted for in the system and all revenues are deposited in the bank.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Grimes

Schedule of Findings

Year ended June 30, 2012

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the public safety, public works and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City is very aware of the requirements of Chapter 384.18 of the Code of Iowa. Because of the mispostings in financial reporting in the public safety, public works and debt service functions, the required amendments were not made. Had the City been aware of the corrections needed, the amendment would have been completed as required.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees for the year ended June 30, 2012 were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (8) Water and Sewer Revenue Bonds – No instances of non-compliance with the provisions of the revenue bond resolutions were noted.
- (9) Financial Condition – The Capital Projects Fund had a deficit balance of \$139,497 at June 30, 2012.

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

Response – The City will receive TIF receipts to offset the deficit in the Park Capital Project Account. As well, the City will receive receipts from a proposed \$6,000,000 bond issue in late November which will reimburse part of the deficit balance in the Capital Project Road Account as well as the Capital Project Main Street Account. The City is also in the process of implementing a Storm Water Utility fee which will reimburse part of the deficit balance in the Capital Project Storm Water Account. In fiscal year 2013, the Capital Projects Fund will no longer carry a deficit balance.

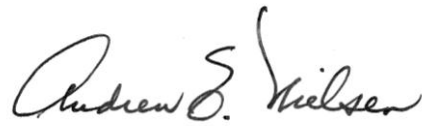
Conclusion – Response accepted.

City of Grimes

Staff

This audit was performed by:

Brian R. Brustkern, CPA, Manager
Melissa J. Knoll-Speer, Senior Auditor II
Kassi D. Adams, Staff Auditor
Philip A. Rethwisch, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State