

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

June 30, 2018

CITY OF GRIMES

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CITY OF GRIMES

Officials

(Before January 2018)

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

(After January 2018)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|----------------------------|-------------------------------------|-------------------------------|
| Scott Mikkelsen. | Mayor. | Jan 2022 |
| Jill Altringer. | Mayor Pro tem. | Jan 2022 |
| Ryan Burger. | Council Member. | Jan 2022 |
| David Gisch. | Council Member. | Jan 2022 |
| Eric Johansen. | Council Member. | Jan 2020 |
| Jeremy Hamp. | Council Member. | Jan 2020 |
| Mark Arentsen. | Interim City Administrator. | (Resigned May 2018) |
| Jake Anderson. | City Administrator. | (Appointed May 2018) May 2019 |
| Rochelle Williams. | City Clerk. | Indefinite |
| Marcia Woodke. | Financial Director. | Indefinite |
| Tom Henderson. | Attorney. | Indefinite |

City of Grimes



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CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grimes, Iowa, as of and for the year ended June 30, 2018, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grimes as of June 30, 2018, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Emphasis of a Matter

As discussed in Note 5 to the financial statements, the City of Grimes adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grimes' basic financial statements. The financial statements for the nine years ended June 30, 2017 (which are not presented herein) were audited by another auditor who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 7 through 12 and 34 through 40, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2018 on our consideration of the City of Grimes' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Grimes's internal control over financial reporting and compliance.

Martens + Company, CPA, LLP

West Des Moines, Iowa
December 5, 2018

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, 2018. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2018 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 0.5%, or approximately \$141,000, from fiscal year 2017 to fiscal year 2018. Property tax increased approximately \$377,000 and bond proceeds increased approximately \$1,777,000.
- Disbursements of the City's governmental activities decreased 38.4%, or approximately \$12,271,000, in fiscal year 2018 from fiscal year 2017. Public safety disbursements increased approximately \$1,009,000. Capital projects and debt service decreased approximately \$5,869,000 and \$7,825,000, respectively.
- The City's total cash basis net position increased 52%, or approximately \$9,787,000, from June 30, 2017 to June 30, 2018. Of this amount, the cash basis net position of the governmental activities increased approximately \$8,356,000 and the cash basis net position of the business type activities increased approximately \$1,431,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Water, Sewer and Storm Water 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 position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased over last year, from approximately \$11.573 million to approximately \$19.929 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

| Changes in Cash Basis Net Position of Governmental Activities | | |
|---|----------------------|----------------------|
| | Year ended June 30, | |
| | 2018 | 2017 |
| Receipts and transfers: | | |
| Program receipts: | | |
| Charges for service | \$ 1,821,790 | \$ 1,444,341 |
| Operating grants, contributions and restricted interest | 1,922,421 | 1,636,031 |
| Capital grants, contributions and restricted interest | 2,120,034 | 6,142,577 |
| General receipts: | | |
| Property tax | 8,142,946 | 7,655,030 |
| Tax increment financing | 2,782,432 | 1,797,621 |
| Other tax | 75,533 | - |
| Commercial/industrial tax replacement | 273,404 | 248,426 |
| Unrestricted interest on investments | 70,494 | 27,962 |
| Bond proceeds | 10,385,617 | 8,608,612 |
| Other | 107,241 | |
| Total receipts | <u>27,701,912</u> | <u>27,560,600</u> |
| Disbursements: | | |
| Public safety | 4,331,305 | 3,322,060 |
| Public works | 2,035,534 | 2,045,727 |
| Health and social service | 28,100 | - |
| Culture and recreation | 1,275,719 | 1,189,625 |
| Community and economic development | 181,133 | 192,037 |
| General government | 1,164,599 | 844,506 |
| Debt service | 3,227,895 | 11,052,462 |
| Capital projects | 7,461,570 | 13,330,469 |
| Total disbursements | <u>19,705,855</u> | <u>31,976,886</u> |
| Change in cash basis net position before transfers | 7,996,057 | (4,416,286) |
| Transfers, net | <u>360,000</u> | <u>283,000</u> |
| Change in cash basis net position | 8,356,057 | (4,133,286) |
| Cash basis net position beginning of year | <u>11,572,694</u> | <u>15,705,980</u> |
| Cash basis net position end of year | <u>\$ 19,928,751</u> | <u>\$ 11,572,694</u> |

The City's total receipts for governmental activities increased 0.5%, or approximately \$141,000 over the prior year. The total cost of all programs and services decreased approximately \$12,271,000, or 38.4%, with no new programs added this year. The increase in receipts was primarily the result of proceeds received from the issuance of general obligation corporate purpose bonds and tax increment financing receipts.

The cost of all governmental activities this year was approximately \$19.706 million compared to approximately \$31.977 million last year. However, as shown in the Statement of Activities and Net Position on pages 14 and 15 the amount taxpayers ultimately financed for these activities was \$13.842 million because some of the cost was paid by those directly benefiting from the programs (approximately \$1,822,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$4,042,000). The City paid for the remaining "public benefit" portion of governmental activities with property tax

(some of which could only be used for certain programs) and with other receipts, such as interest, bond proceeds and miscellaneous receipts. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2018 from approximately \$9,223,000, to approximately \$5,864,000, principally due to receiving grant proceeds to complete the City Hall renovation project.

Changes in Cash Basis Net Position of Business Type Activities

| | Year ended June 30, | |
|---|----------------------------|----------------------------|
| | 2018 | 2017 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service: | | |
| Water | \$ 3,258,896 | \$ 2,952,301 |
| Sewer | 2,110,156 | 1,902,772 |
| Storm water | 574,408 | 513,206 |
| Solid waste | 407,395 | 371,955 |
| General receipts: | | |
| Unrestricted interest on investments | 23 | - |
| Other general receipts | 28,006 | - |
| Total receipts | <u>6,378,884</u> | <u>5,740,234</u> |
| Disbursements and transfers: | | |
| Water | 2,386,422 | 2,152,297 |
| Sewer | 1,501,640 | 1,366,589 |
| Storm water | 155,661 | 131,657 |
| Solid waste | 544,511 | 500,425 |
| Transfers, net | 360,000 | 283,000 |
| Total disbursements and transfers | <u>4,948,234</u> | <u>4,433,968</u> |
| Change in cash basis net position | 1,430,650 | 1,306,266 |
| Cash basis net position beginning of year | <u>7,077,669</u> | <u>5,771,403</u> |
| Cash basis net position end of year | <u><u>\$ 8,508,319</u></u> | <u><u>\$ 7,077,669</u></u> |

Total business type activities receipts for the fiscal year 2018 were approximately \$6.379 million compared to approximately \$5.740 million last year.

The cash balance for business type activities at June 30, 2018 increased \$1.431 million over the prior year. Receipts increased \$0.639 million and disbursements and transfers increased by \$0.514 million. Total disbursements and net transfers for the fiscal year increased from approximately \$4.434 million last year to approximately \$4.948 million for fiscal year 2018.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Grimes completed the year, its governmental funds reported a combined fund balance of \$19,928,751, an increase of \$8,356,057 from last year's total of \$11,572,694. 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 approximately \$977,000 over the prior year to \$6,001,728. The City continues to monitor taxes and ending fund balances to determine the ideal balance between having money in reserve for unforeseen emergencies versus keeping taxes at a consistent level.

- The Special Revenue, Road Use Tax Fund cash balance increased \$401,205 from June 30, 2017 to June 30, 2018 and is now currently \$1,424,715. The City continues to work on pavement projects throughout the City and is committed to the continued use of road use tax receipts for major construction projects versus operation of the street department.
- The Special Revenue, Urban Renewal Tax Increment Fund was established to finance projects whereby an investment by the City in infrastructure results in an overall larger tax base. At the end of the fiscal year, the cash balance was approximately \$1,138,000, an increase of approximately \$1,010,000 over the previous year. The increase was the result of proceeds of approximately \$2,782,000 received from the certificate of debt, up from approximately \$1,798,000 in fiscal year 2017. These proceeds will be used for various construction and refurbishing projects within the urban renewal district.
- The Debt Service Fund cash balance increased to \$3,679,922 during fiscal year 2018 from \$2,827,784. The increase is mostly due to reduced payments on debt.
- The Capital Projects Fund cash balance increased from \$1,937,540 to \$6,927,378 in fiscal year 2018. Capital projects vary from year to year and are dependent on the timing of bonding proceeds and the timing of the large capital projects. Bond proceeds not yet spent accounted for most of the increase.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$700,503 to \$3,441,271. This balance allowed for \$200,000 to be transferred to the Capital Projects Fund. The receipts increased from \$2,952,301 in 2017 to \$3,286,925 in 2018 and there was an increase in disbursements from approximately \$1,608,000 in 2017 to approximately \$2,386,000 in 2018.
- The Enterprise, Sewer Fund cash balance increased \$408,516, from \$3,141,231 to \$3,549,747. Receipts increased approximately \$207,000 and disbursements increased approximately \$135,000. This balance also allowed for \$200,000 to be transferred to the Capital Projects Fund.
- The Enterprise, Storm Water Fund cash balance increased approximately \$319,000 from approximately \$1,195,000 to approximately \$1,514,000. Receipts decreased approximately \$61,200 and disbursements increased approximately \$24,000.
- Although this is a nonmajor fund, the Solid Waste Fund continues to be subsidized using emergency levy tax dollars. Also of note, the City Council enacted the storm water utility fee in January 2014. Approximately \$407,000 was received in fiscal year 2018 for solid waste.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The first amendment was approved on February 28, 2018 and the second was approved on May 31, 2018. Typically, the City's amendments are necessitated by the actual timing of the disbursements for capital projects and for refinancing and issuances of bonds. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were approximately \$3,247,000 more than budgeted. This was primarily due to the City receiving more in the Intergovernmental Fund than anticipated.

Even with the budget amendments, total disbursements were approximately \$4,836,000 less than budgeted. This was primarily due to capital project expenditures being significantly under budget.

The City exceeded the amounts budgeted in the public safety, debt service and business type activities. Functions for the year ended June 30, 2018.

DEBT ADMINISTRATION

At June 30, 2018, the City had approximately \$39.070 million of bonds and other long-term debt outstanding compared to approximately \$32.043 million at June 30, 2017, as shown below.

| Outstanding Debt at Year-End (Expressed in Thousands) | | |
|--|------------------|------------------|
| | June 30, | |
| | 2018 | 2017 |
| General obligation bonds | \$ 31,530 | \$ 23,795 |
| Revenue bonds | 7,174 | 7,666 |
| Loan agreements | 83 | 162 |
| Lease-purchase agreements | 283 | 420 |
| Total | <u>\$ 39,070</u> | <u>\$ 32,043</u> |

Debt increased as a result of issuing general obligation bonds and issuing water revenue bonds for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation and tax increment financing debt of approximately \$31,895,000 is significantly below its constitutional debt limit of approximately \$68 million. Additional information about the City’s long-term debt is presented in Note 3 to the financial statements.

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 2019 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the City now stands at 2.4% versus 3.0% a year ago. This compares with the State’s unemployment rate of 2.4% - last year 3.0% and the national rate of 3.9%.

These indicators were taken into account when adopting the budget for fiscal year 2019. The City expects increases in tax revenue of approximately \$1,500,000. Property tax (benefiting from the fiscal year 2018 rate increases, growth and increases in assessed valuations) and proceeds from revenue bonds are expected to lead this increase. The City will use these increases in receipts to finance programs we currently offer and to defray a portion of the costs of carrying out various construction and infrastructure projects of the City. Budgeted disbursements increased approximately \$7,600,000 due to increased Fire department expenses, increases in street construction and maintenance and several large construction and infrastructure projects. The City has added no major new programs or initiatives to the fiscal year 2019 budget.

If these estimates are realized, the City’s cash balance is expected to increase approximately \$1,100,000 by the close of fiscal year 2019. A portion of these monies is being set aside to help construct needed water improvements.

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 Jake Anderson, City Administrator, 101 North Harvey, Grimes, Iowa 50111 or by e-mail at janderson@grimesiowa.gov.

Basic Financial Statements

CITY OF GRIMES

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2018

| | Disbursements | Program Receipts | | |
|---|----------------------|---------------------|---|---|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Functions/Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 4,331,305 | \$ 1,545,125 | \$ 324,386 | \$ - |
| Public works | 2,035,534 | - | 1,462,752 | - |
| Health and social services | 28,100 | - | - | - |
| Culture and recreation | 1,275,719 | 216,991 | 92,913 | - |
| Community and economic development | 181,133 | - | - | - |
| General government | 1,164,599 | 59,674 | 40,766 | - |
| Debt service | 3,227,895 | - | 1,604 | 654,243 |
| Capital projects | 7,461,570 | - | - | 1,465,791 |
| Total governmental activities | <u>19,705,855</u> | <u>1,821,790</u> | <u>1,922,421</u> | <u>2,120,034</u> |
| Business type activities: | | | | |
| Water | 2,386,422 | 3,258,896 | - | - |
| Sewer | 1,501,640 | 2,110,156 | - | - |
| Storm water | 155,661 | 574,408 | - | - |
| Solid waste | 544,511 | 407,395 | - | - |
| Total business type activities | <u>4,588,234</u> | <u>6,350,855</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 24,294,089</u> | <u>\$ 8,172,645</u> | <u>\$ 1,922,421</u> | <u>\$ 2,120,034</u> |
| General receipts and transfers: | | | | |
| Property and other city tax levied for: | | | | |
| General purposes | | | | |
| Debt service | | | | |
| Tax increment financing | | | | |
| Other tax | | | | |
| Commercial/industrial tax replacement | | | | |
| Unrestricted interest on investments | | | | |
| Bond proceeds | | | | |
| Miscellaneous | | | | |
| Transfers | | | | |
| Total general receipts and transfers | | | | |
| Change in cash basis net position | | | | |
| Cash basis net position beginning of year | | | | |
| Cash basis net position end of year | | | | |
| Cash Basis Net Position | | | | |
| Restricted: | | | | |
| Debt service | | | | |
| Streets | | | | |
| Urban renewal purposes | | | | |
| Capital projects | | | | |
| Other purposes | | | | |
| Unrestricted | | | | |
| Total cash basis net position | | | | |

See notes to financial statements.

| Net (Disbursements) Receipts and Changes in Cash Basis Net Position | | |
|--|-----------------------------|----------------|
| Governmental Activities | Business Type Activities | Total |
| \$ (2,461,794) | \$ - | \$ (2,461,794) |
| (572,782) | - | (572,782) |
| (28,100) | - | (28,100) |
| (965,815) | - | (965,815) |
| (181,133) | - | (181,133) |
| (1,064,159) | - | (1,064,159) |
| (2,572,048) | - | (2,572,048) |
| (5,995,779) | - | (5,995,779) |
| (13,841,610) | - | (13,841,610) |
| - | 872,474 | 872,474 |
| - | 608,516 | 608,516 |
| - | 418,747 | 418,747 |
| - | (137,116) | (137,116) |
| | 1,762,621 | 1,762,621 |
| (13,841,610) | 1,762,621 | (12,078,989) |
| 6,574,576 | - | 6,574,576 |
| 1,568,370 | - | 1,568,370 |
| 2,782,432 | - | 2,782,432 |
| 75,533 | - | 75,533 |
| 273,404 | - | 273,404 |
| 70,494 | 23 | 70,517 |
| 10,385,617 | - | 10,385,617 |
| 107,241 | 28,006 | 135,247 |
| 360,000 | (360,000) | - |
| 22,197,667 | (331,971) | 21,865,696 |
| 8,356,057 | 1,430,650 | 9,786,707 |
| 11,572,694 | 7,077,669 | 18,650,363 |
| \$ 19,928,751 | \$ 8,508,319 | \$ 28,437,070 |
| \$ 3,679,922 | \$ 374,272 | \$ 4,054,194 |
| 1,424,715 | - | 1,424,715 |
| 1,138,084 | - | 1,138,084 |
| 6,927,374 | - | 6,927,374 |
| 756,924 | - | 756,924 |
| 6,001,732 | 8,134,047 | 14,135,779 |
| \$ 19,928,751 | \$ 8,508,319 | \$ 28,437,070 |

CITY OF GRIMES

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

As of and for the year ended June 30, 2018

| | Special Revenue | | |
|--|---------------------|---------------------|-------------------------------|
| | General | Road Use Tax | Tax Increment Financing |
| Receipts: | | | |
| Property tax | \$ 5,202,274 | \$ - | \$ - |
| Tax increment financing | - | - | 2,782,432 |
| Other city tax | 75,533 | - | - |
| Licenses and permits | 957,905 | - | - |
| Use of money and property | 70,494 | - | - |
| Intergovernmental | 359,622 | 1,457,462 | - |
| Charges for service | 986,159 | - | - |
| Special assessments | - | - | - |
| Miscellaneous | 301,363 | 5,290 | - |
| Total receipts | 7,953,350 | 1,462,752 | 2,782,432 |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | 4,308,693 | - | - |
| Public works | 1,557,232 | 478,302 | - |
| Health and social service | 28,100 | - | - |
| Culture and recreation | 1,268,795 | - | - |
| Community and economic development | 181,133 | - | - |
| General government | 1,164,599 | - | - |
| Debt service | - | - | - |
| Capital projects | - | - | - |
| Total disbursements | 8,508,552 | 478,302 | - |
| Excess (deficiency) of receipts over (under) disbursements | (555,202) | 984,450 | 2,782,432 |
| Other financing sources (uses): | | | |
| Bond proceeds, premium of \$141,458 and net of issuance cost of \$91,158 | - | - | - |
| Transfers in | 1,672,000 | - | - |
| Transfers out | (140,000) | (583,245) | (1,772,574) |
| Total other financing sources (uses) | 1,532,000 | (583,245) | (1,772,574) |
| Change in cash balances | 976,798 | 401,205 | 1,009,858 |
| Cash balances beginning of year | 5,024,930 | 1,023,510 | 128,226 |
| Cash balances end of year | \$ 6,001,728 | \$ 1,424,715 | \$ 1,138,084 |
| Cash Basis Fund Balances | | | |
| Restricted for: | | | |
| Debt service | \$ - | \$ - | \$ - |
| Streets | - | 1,424,715 | - |
| Urban renewal purposes | - | - | 1,138,084 |
| Capital projects | - | - | - |
| Other purposes | - | - | - |
| Unassigned | 6,001,728 | - | - |
| Total cash basis fund balances | \$ 6,001,728 | \$ 1,424,715 | \$ 1,138,084 |

See notes to financial statements.

| Debt Service | Capital Projects | Nonmajor | Total |
|--------------|------------------|--------------|---------------|
| \$ 1,568,370 | \$ - | \$ 1,372,302 | \$ 8,142,946 |
| - | - | - | 2,782,432 |
| - | - | - | 75,533 |
| - | - | - | 957,905 |
| 32 | 36,601 | - | 107,127 |
| - | 990,761 | 12,510 | 2,820,355 |
| - | - | - | 986,159 |
| 654,243 | - | - | 654,243 |
| 1,569 | 438,429 | 42,944 | 789,595 |
| 2,224,214 | 1,465,791 | 1,427,756 | 17,316,295 |
| - | - | 22,612 | 4,331,305 |
| - | - | - | 2,035,534 |
| - | - | - | 28,100 |
| - | - | 6,924 | 1,275,719 |
| - | - | - | 181,133 |
| - | - | - | 1,164,599 |
| 3,227,895 | - | - | 3,227,895 |
| - | 7,461,570 | - | 7,461,570 |
| 3,227,895 | 7,461,570 | 29,536 | 19,705,855 |
| (1,003,681) | (5,995,779) | 1,398,220 | (2,389,560) |
| - | 10,385,617 | - | 10,385,617 |
| 1,855,819 | 600,000 | - | 4,127,819 |
| - | - | (1,272,000) | (3,767,819) |
| 1,855,819 | 10,985,617 | (1,272,000) | 10,745,617 |
| 852,138 | 4,989,838 | 126,220 | 8,356,057 |
| 2,827,784 | 1,937,540 | 630,704 | 11,572,694 |
| \$ 3,679,922 | \$ 6,927,378 | \$ 756,924 | \$ 19,928,751 |
| \$ 3,679,922 | \$ - | \$ - | \$ 3,679,922 |
| - | - | - | 1,424,715 |
| - | - | - | 1,138,084 |
| - | 6,927,378 | - | 6,927,378 |
| - | - | 756,924 | 756,924 |
| - | - | - | 6,001,728 |
| \$ 3,679,922 | \$ 6,927,378 | \$ 756,924 | \$ 19,928,751 |

CITY OF GRIMES

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

As of and for the year ended June 30, 2018

| | Enterprise | | | | Total |
|--|--------------|--------------|--------------|----------------------|--------------|
| | Water | Sewer | Storm Water | Solid Waste Nonmajor | |
| Operating receipts: | | | | | |
| Charges for service | \$ 3,258,896 | \$ 2,110,156 | \$ 574,408 | \$ 407,395 | \$ 6,350,855 |
| Operating disbursements: | | | | | |
| Business type activities | 1,829,178 | 931,502 | 155,661 | 544,511 | 3,460,852 |
| Excess (deficiency) of operating receipts over (under) operating disbursements | 1,429,718 | 1,178,654 | 418,747 | (137,116) | 2,890,003 |
| Non-operating receipts (disbursements): | | | | | |
| Debt service | (557,244) | (570,138) | - | - | (1,127,382) |
| Interest on investments | 23 | - | - | - | 23 |
| Miscellaneous | 28,006 | - | - | - | 28,006 |
| Net non-operating receipts (disbursements) | (529,215) | (570,138) | - | - | (1,099,353) |
| Excess (deficiency) of receipts over (under) disbursements | 900,503 | 608,516 | 418,747 | (137,116) | 1,790,650 |
| Other financing sources (uses): | | | | | |
| Transfers in | - | - | - | 140,000 | 140,000 |
| Transfers out | (200,000) | (200,000) | (100,000) | - | (500,000) |
| Total other financing sources (uses) | (200,000) | (200,000) | (100,000) | 140,000 | (360,000) |
| Change in cash balances | 700,503 | 408,516 | 318,747 | 2,884 | 1,430,650 |
| Cash balances beginning of year | 2,740,768 | 3,141,231 | 1,194,876 | 794 | 7,077,669 |
| Cash balances end of year | \$ 3,441,271 | \$ 3,549,747 | \$ 1,513,623 | \$ 3,678 | \$ 8,508,319 |
| Cash Basis Fund Balances | | | | | |
| Restricted for debt service | \$ 215,152 | \$ 159,120 | \$ - | \$ - | \$ 374,272 |
| Unrestricted | 3,226,119 | 3,390,627 | 1,513,623 | 3,678 | 8,134,047 |
| Total cash basis fund balances | \$ 3,441,271 | \$ 3,549,747 | \$ 1,513,623 | \$ 3,678 | \$ 8,508,319 |

See notes to financial statements.

CITY OF GRIMES

Notes to Financial Statements

June 30, 2018

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

The financial statements present the City of Grimes (the primary government) and its component unit. The component unit discussed below is not 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, Emergency Planning Administration, Polk County Fire/Rescue Service and Iowa Municipal Housing Agency.

B. Basis of Presentation

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

CITY OF GRIMES

Notes to Financial Statements - Continued

June 30, 2018

(1) Summary of Significant Accounting Policies - Continued

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment 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.

CITY OF GRIMES

Notes to Financial Statements - Continued

June 30, 2018

(1) Summary of Significant Accounting Policies - Continued

Fund Financial Statements - Continued

The City reports the following major proprietary funds:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

Unassigned - All amounts not included in the preceding classification.

CITY OF GRIMES

Notes to Financial Statements - Continued

June 30, 2018

(1) Summary of Significant Accounting Policies - Continued

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2018 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$59,842 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The City's investment in the Iowa Public Agency Investment Trust is unrated.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds Payable and Other Financing Arrangements

Estimated 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 | |
| 2019 | \$ 2,215,000 | \$ 868,222 | \$1,007,000 | \$133,588 | \$ 3,222,000 | \$1,001,810 | \$ 4,223,810 |
| 2020 | 2,285,000 | 824,780 | 1,040,000 | 115,550 | 3,325,000 | 940,330 | 4,265,330 |
| 2021 | 2,340,000 | 756,731 | 1,075,000 | 96,898 | 3,415,000 | 853,629 | 4,268,629 |
| 2022 | 2,390,000 | 687,080 | 283,000 | 77,638 | 2,673,000 | 764,718 | 3,437,718 |
| 2023 | 2,060,000 | 617,881 | 290,000 | 72,221 | 2,350,000 | 690,102 | 3,040,102 |
| 2024-2028 | 9,220,000 | 2,384,968 | 1,537,000 | 275,817 | 10,757,000 | 2,660,785 | 13,417,785 |
| 2029-2033 | 9,930,000 | 1,042,314 | 1,697,000 | 123,065 | 11,627,000 | 1,165,379 | 12,792,379 |
| 2034-2038 | 1,090,000 | 55,575 | 245,166 | 5,276 | 1,335,166 | 60,851 | 1,396,017 |
| Total | <u>\$31,530,000</u> | <u>\$7,237,551</u> | <u>\$7,174,166</u> | <u>\$900,053</u> | <u>\$38,704,166</u> | <u>\$8,137,604</u> | <u>\$46,841,770</u> |

CITY OF GRIMES

Notes to Financial Statements - Continued

June 30, 2018

(3) Bonds Payable and Other Financing Arrangements - Continued

General Obligation Corporate Bonds

The City issued \$9,855,000 General Obligation Corporate Purpose Bonds, Series 2018A issued by the City to evidence its obligation under a certain loan agreement, dated as of June 27, 2018 (the "Loan Agreement"), entered into by the City for the purpose of paying the cost, to that extent, of (1) planning and constructing street, water system, sanitary sewer system, sidewalk, storm water drainage and waterway improvements; (2) acquiring an ambulance; (3) planning and constructing trail improvements and new municipal park improvements; and (4) acquiring land.

Water and Sewer Revenue Bonds

On December 12, 2017, the City entered into a loan agreement with the Iowa Finance Authority (IFA) and the Iowa Department of Natural Resources for the issuance of Water Revenue Bonds up to \$1,809,000 with interest at 1.75% per annum. No funds have been advanced on the loan as of June 30, 2018.

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

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

On July 12, 2013, the City entered into a loan agreement with the Iowa Finance Authority (IFA) and the Iowa Department of Natural Resources for the issuance of water revenue bonds up to \$2,432,000 with interest at 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing a new Jordan water supply well. The City will draw down funds from the IFA upon request to reimburse the City for costs as they are incurred. At June 30, 2018, the City had drawn down \$2,147,019 of the authorized amount. An initiation fee of \$12,160 (0.5% of the authorized borrowing for the water revenue bonds) was charged by the IFA. The initiation fee was withheld from the first proceeds of the water revenue bonds drawn by the City during the year ended June 30, 2014. During the year ended June 30, 2018, the City paid principal of \$94,000 and interest of \$30,607 on the bonds under a preliminary repayment schedule.

CITY OF GRIMES

Notes to Financial Statements - Continued

June 30, 2018

(3) Bonds Payable and Other Financing Arrangements - Continued

On September 23, 2016, the City entered into a loan agreement with the Iowa Finance Authority (IFA) and the Iowa Department of Natural Resources for the issuance of water revenue bonds up to \$577,000 with interest at 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing a water treatment facility. The City will draw down funds from the IFA upon request to reimburse the City for costs as they are incurred. At June 30, 2018, the City had drawn down \$503,512 of the authorized amount. An initiation fee of \$2,885 (0.5% of the authorized borrowing for the water revenue bonds) was charged by the IFA. The initiation fee was withheld from the first proceeds of the water revenue bonds drawn by the City during the year ended June 30, 2017. A final repayment schedule has not yet been adopted. During the year ended June 30, 2018, the City paid principal of \$24,000 and interest of \$9,364 on the bonds under a preliminary repayment schedule.

On November 4, 2016, the City entered into a loan agreement with the Iowa Finance Authority (IFA) and the Iowa Department of Natural Resources for the issuance of sewer revenue bonds up to \$3,435,000 with interest at 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing a new wastewater treatment facility. The City will draw down funds from the IFA upon request to reimburse the City for costs as they are incurred. At June 30, 2018, the City had drawn down \$3,045,654 of the authorized amount. An initiation fee of \$17,175 (0.5% of the authorized borrowing for the sewer revenue bonds) was charged by the IFA. The initiation fee was withheld from the first proceeds of the sewer revenue bonds drawn by the City during the year ended June 30, 2017. A final repayment schedule has not yet been adopted. During year ended June 30, 2018, the City paid principal of \$144,000 and interest of \$56,804 on the bonds under a preliminary repayment schedule.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$10,788,000 of water revenue bonds issued in December 2000, July 2013, September 2016 and January 2018. Proceeds from the bonds provided financing for the construction of water main extensions and a well. The bonds are payable solely from water customer net receipts and are payable through 2021. Annual principal and interest payments on the bonds are expected to require less than 41% of net receipts. The total principal and interest remaining to be paid on the bonds issued in December 2000 is \$1,224,877. For the current year, principal and interest paid and total customer net receipts were \$552,096 and \$1,429,718, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$8,807,000 of sewer revenue bonds issued in December 2000 and November 2016. Proceeds from the bonds provided financing for the construction of improvements to the sewer treatment plant. The bonds are payable solely from sewer customer receipts and are payable through 2021. Annual principal and interest payments on the bonds are expected to require less than 50% of net receipts. The total principal and interest remaining to be paid on the bonds issued in December 2000 is \$1,159,758. For the current year, principal and interest paid and total customer net receipts were \$569,406 and \$1,178,654, respectively.

CITY OF GRIMES

Notes to Financial Statements - Continued

June 30, 2018

(3) Bonds Payable and Other Financing Arrangements - Continued

Loan Agreement

On July 30, 2014, the City entered into a bank loan for \$400,000 to purchase a skid loader and 2 snow plows. The loan bears interest at 2.00% per annum and matures on July 30, 2018. The City began making annual principal payments of \$83,245, including interest on July 30, 2014. The principal balance at June 30, 2018 was \$81,590. The loan will be repaid from collections of a debt service levy on all taxable property in the City.

Lease Purchase Agreement

The City has entered into a lease-purchase agreement to lease a fire engine and equipment with a historical cost of \$700,000. The following is a schedule of the future minimum lease payments, including interest at a rate of 2.00% per annum, and the present value of net minimum lease payments under the agreements in effect at June 30, 2018.

| Year Ending June 30, | Fire Engine and Equipment |
|--|---------------------------------|
| 2019 | \$ 145,680 |
| 2020 | <u>145,680</u> |
| Total minimum lease payments | 291,360 |
| Less amount representing interest | <u>(8,816)</u> |
| Present value of net minimum lease payments | <u>\$ 282,544</u> |

Payments under the lease-purchase agreement totaled \$145,680 for the year ended June 30, 2018.

(4) Pension Plan

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

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

CITY OF GRIMES

Notes to Financial Statements - Continued

June 30, 2018

(4) Pension Plan - Continued

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

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

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

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

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

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

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

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

CITY OF GRIMES

Notes to Financial Statements - Continued

June 30, 2018

(4) Pension Plan - Continued

In fiscal year 2018, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2018 totaled \$259,922.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2018, the City reported a liability of \$1,515,633 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2017, the City's proportion was 0.022333%, which was an increase of 0.000916% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018 the City pension expense deferred outflows of resources and deferred inflows of resources totaled \$202,803, \$537,413 and \$295,872 respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

| | |
|--|---|
| Rate of Inflation (effective June 30, 2017) | 2.60% per annum |
| Rates of salary increases (effective June 30, 2017) | 3.25 to 16.25%, average, including inflation. Rates vary by membership group |
| Long-term investment rate of return (effective June 30, 2017) | 7.00%, compounded annually, net of investment expense, including inflation. |
| Wage growth (effective June 30, 2017) | 3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation |

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study dated March 24, 2017.

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

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

CITY OF GRIMES

Notes to Financial Statements - Continued

June 30, 2018

(4) Pension Plan - Continued

| <u>Asset Class</u> | <u>Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|-------------------------|---|
| Domestic equity | 24.0% | 6.25% |
| International equity | 16.0 | 6.71 |
| Core plus fixed income | 27.0 | 2.25 |
| Public credit | 3.5 | 3.46 |
| Public real assets | 7.0 | 3.27 |
| Cash | 1.0 | (0.31) |
| Private equity | 11.0 | 11.15 |
| Private real assets | 7.5 | 4.18 |
| Private credit | 3.0 | 4.25 |
| Total | <u>100.0%</u> | |

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

| | 1% Decrease <u>(6.00%)</u> | Discount Rate <u>(7.00%)</u> | 1% Increase <u>(8.00%)</u> |
|--|----------------------------------|------------------------------------|----------------------------------|
| City's proportionate share of the net pension liability | \$2,934,556 | 1,515,633 | \$ 323,930 |

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

CITY OF GRIMES

Notes to Financial Statements - Continued

June 30, 2018

(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. Group insurance benefits are established under Iowa Code Chapter 509A.13. 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 the plan members range from \$245 to \$974 for single coverage and \$718 to \$1,955 for family coverage depending upon age. For the year ended June 30, 2018, the City contributed \$438,725 and plan members eligible for benefits contributed \$28,568 to the plan. At June 30, 2018, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits - Individuals who are employed by the City of Grimes and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2018, the following employees were covered by the benefit terms:

| | |
|--|----|
| Inactive employees or beneficiaries currently receiving benefit payments | 1 |
| Active employees | 43 |
| Total | 44 |

(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, 2018, primarily relating to the General Fund, is as follows:

| Type of Benefit | Amount |
|-------------------|------------|
| Vacation | \$ 127,170 |
| Compensatory time | 35,133 |
| Sick leave | 302,586 |
| Total | \$ 464,889 |

This liability has been computed based on rates of pay in effect at June 30, 2018.

CITY OF GRIMES

Notes to Financial Statements - Continued

June 30, 2018

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2018 is as follows:

| Transfer to | Transfer from | Amount |
|----------------------------|-------------------------|---------------------|
| General | Special Revenue: | |
| | Road Use Tax | \$ 400,000 |
| | Employee Benefits | <u>1,272,000</u> |
| | | <u>1,672,000</u> |
| Debt Service | Special Revenue: | |
| | Road Use Tax | 83,245 |
| | Tax Increment Financing | <u>1,772,574</u> |
| | | <u>1,855,819</u> |
| Capital Projects | Special Revenue: | |
| | Road Use Tax | 100,000 |
| | Enterprise: | |
| | Water | 200,000 |
| | Sewer | 200,000 |
| | Storm Water | <u>100,000</u> |
| | | <u>600,000</u> |
| Enterprise: Solid Waste | General | <u>140,000</u> |
| Total | | <u>\$ 4,267,819</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 in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 775 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

CITY OF GRIMES

Notes to Financial Statements - Continued

June 30, 2018

(8) Risk Management - Continued

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

The City's property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The City's contributions to the Pool for the year ended June 30, 2018 were \$186,726.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

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

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

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

The City provides health coverage for its employees through a self-insurance plan funded and administrated by the City. The City assumes liability for the difference in deductibles from the plan for any amounts over \$250 for individual coverage and \$500 for family coverage. Monthly payments of claims are paid from the City's General Fund. During the year ended June 30, 2018, the City transferred \$12,238 from the Special Revenue, Employee Benefits Fund to the General Fund to fund the fees and claims paid by the City.

CITY OF GRIMES

Notes to Financial Statements - Continued

June 30, 2018

(9) Development and Rebate Agreements

The City has entered into 15 development and rebate agreements to assist in certain urban renewal projects. The City agreed to rebate incremental property tax paid by the developers in exchange for the costs of certain infrastructure improvement projects constructed by the City as set forth in the urban renewal plan and the individual development and rebate agreements. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developers will be rebated for periods ranging from five to ten years, beginning with the tax year in which the property tax on the completed value of the improvements is first paid. The maximum amount to be rebated under the development and rebate agreements is the lesser of actual project costs paid by the developer or \$11,641,885. The agreements do not include provisions for payment of interest.

During the year ended June 30, 2018, the City rebated \$234,539 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, 2018 is \$2,188,668.

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.

(10) Tax Abatements

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

City Tax Abatements

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

For the year ended June 30, 2018, the City abated \$557,206 of property tax under the urban renewal and economic development projects.

(11) Industrial Development Revenue Bonds

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.

CITY OF GRIMES

Notes to Financial Statements - Continued

June 30, 2018

(11) Industrial Development Revenue Bonds

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

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

The City entered into a loan agreement, dated December 29, 2017, with the Young Men's Christian Association of Greater Des Moines, Iowa to loan to the Association. The borrower covenants that the proceeds of the Series 2017 bonds are to be used only with respect of the permanent financing of the project. \$3,030,223 in principal remains outstanding at June 30, 2018.

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 \$11,641,885. As of June 30, 2018 costs of \$9,453,217 had been paid on the contracts. The remaining \$2,188,668 will be paid as work on these projects progresses.

(13) Subsequent Events

The City has evaluated all subsequent events through December 5, 2018, the date the financial statements were available to be issued.

City of Grimes

Other Information

CITY OF GRIMES

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

Other Information

Year ended June 30, 2018

| | Governmental Funds Actual | Proprietary Funds Actual | Less Funds not Required to be Budgeted | Total |
|---|---------------------------------|--------------------------------|---|----------------------|
| Receipts: | | | | |
| Property tax | \$ 8,142,946 | \$ - | \$ - | \$ 8,142,946 |
| Tax increment financing | 2,782,432 | - | - | 2,782,432 |
| Other city tax | 75,533 | - | - | 75,533 |
| Licenses and permits | 957,905 | - | - | 957,905 |
| Uses of money and property | 107,127 | 23 | - | 107,150 |
| Intergovernmental | 2,820,355 | - | - | 2,820,355 |
| Charges for service | 986,159 | 6,350,855 | - | 7,337,014 |
| Special assessments | 654,243 | - | - | 654,243 |
| Miscellaneous | 789,595 | 28,006 | 35,190 | 782,411 |
| Total receipts | 17,316,295 | 6,378,884 | 35,190 | 23,659,989 |
| Disbursements: | | | | |
| Public safety | 4,331,305 | - | 22,612 | 4,308,693 |
| Public works | 2,035,534 | - | - | 2,035,534 |
| Health and social services | 28,100 | - | - | 28,100 |
| Culture and recreation | 1,275,719 | - | - | 1,275,719 |
| Community and economic development | 181,133 | - | - | 181,133 |
| General government | 1,164,599 | - | - | 1,164,599 |
| Debt service | 3,227,895 | - | - | 3,227,895 |
| Capital projects | 7,461,570 | - | - | 7,461,570 |
| Business type activities | - | 4,588,234 | - | 4,588,234 |
| Total disbursements | 19,705,855 | 4,588,234 | 22,612 | 24,271,477 |
| Excess (deficiency) of receipts over (under) disbursements | (2,389,560) | 1,790,650 | 12,578 | (611,488) |
| Other financing sources (uses), net | 10,745,617 | (360,000) | - | 10,385,617 |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 8,356,057 | 1,430,650 | 12,578 | 9,774,129 |
| Balances beginning of year | 11,572,694 | 7,077,669 | 22,022 | 18,628,341 |
| Balances end of year | <u>\$ 19,928,751</u> | <u>\$ 8,508,319</u> | <u>\$ 34,600</u> | <u>\$ 28,402,470</u> |

See accompanying independent auditor's report.

| <u>Budgeted Amounts</u> | | Final to Total variance- Positive (Negative) |
|-------------------------|----------------------|--|
| <u>Original</u> | <u>Final</u> | |
| \$ 7,803,330 | \$ 7,803,330 | \$ 339,616 |
| 2,795,650 | 2,795,650 | (13,218) |
| 342,329 | 342,329 | (266,796) |
| 522,025 | 832,194 | 125,711 |
| 60,900 | 79,042 | 28,108 |
| 1,704,493 | 1,718,529 | 1,101,826 |
| 6,382,000 | 6,653,614 | 683,400 |
| 100,000 | 100,000 | 554,243 |
| 58,000 | 88,012 | 694,399 |
| <u>19,768,727</u> | <u>20,412,700</u> | <u>3,247,289</u> |
| 4,052,440 | 4,536,583 | 227,890 |
| 2,541,760 | 2,541,760 | 506,226 |
| 40,000 | 40,000 | 11,900 |
| 1,504,496 | 1,526,003 | 250,284 |
| 193,327 | 193,327 | 12,194 |
| 973,052 | 1,272,833 | 108,234 |
| 3,743,920 | 3,743,920 | 516,025 |
| 7,125,000 | 10,210,599 | 2,749,029 |
| 4,494,398 | 5,042,130 | 453,896 |
| <u>24,668,393</u> | <u>29,107,155</u> | <u>4,835,678</u> |
| (4,899,666) | (8,694,455) | 8,082,967 |
| <u>10,000,000</u> | <u>11,900,000</u> | <u>(1,514,383)</u> |
| 5,100,334 | 3,205,545 | 6,568,584 |
| <u>13,760,174</u> | <u>13,760,174</u> | <u>4,868,167</u> |
| <u>\$ 18,860,508</u> | <u>\$ 16,965,719</u> | <u>\$ 11,436,751</u> |

CITY OF GRIMES

Notes To Other Information - Budgetary Reporting

June 30, 2018

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by a total of \$4,438,762. The budget amendments are reflected in the final budgeted amounts.

CITY OF GRIMES

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

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

Other Information

| | 2018 | 2017 | 2016 | 2015 |
|--|-----------|-----------|-----------|-----------|
| City's proportion of the net pension liability | 0.022333% | 0.021417% | 0.018996% | 0.016858% |
| City's proportionate share of the net pension liability | \$ 1,516 | \$ 1,348 | \$ 938 | \$ 669 |
| City's covered payroll | \$ 2,457 | \$ 2,068 | \$ 1,896 | \$ 1,674 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 61.70% | 65.18% | 49.47% | 39.96% |
| IPERS' net position as a percentage of the total pension liability | 82.21% | 81.82% | 85.19% | 87.61% |

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

See accompanying independent auditor's report.

CITY OF GRIMES

Schedule of City Contributions

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

Other Information

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|--------------|--------------|--------------|--------------|
| Statutorily required contribution | \$ 260 | 226 | 190 | 175 |
| Contributions in relation to the statutorily required contribution | <u>(260)</u> | <u>(226)</u> | <u>(190)</u> | <u>(175)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| City's covered payroll | \$ 2,805 | 2,457 | 2,068 | 1,896 |
| Contributions as a percentage of covered payroll | 9.27% | 9.20% | 9.19% | 9.23% |

See accompanying independent auditor's report.

| 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|-------|-------|-------|-------|-------|-------|
| 154 | 134 | 114 | 96 | 88 | 72 |
| (154) | (134) | (114) | (96) | (88) | (72) |
| - | - | - | - | - | - |
| 1,674 | 1,497 | 1,356 | 1,289 | 1,250 | 1,091 |
| 9.20% | 8.95% | 8.41% | 7.45% | 7.04% | 6.60% |

CITY OF GRIMES

Notes to Other Information - Pension Liability

Year ended June 30, 2018

Changes of benefit terms:

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

Changes of assumptions:

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2015. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

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

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

Supplementary Information

CITY OF GRIMES

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

As of and for the year ended June 30, 2018

| | Employee Benefits | Economic Development Revolving Loan | Special Grimes Fire and Rescue Association |
|---------------------------------------|----------------------|---|---|
| Receipts: | | | |
| Property tax | \$1,372,302 | \$ - | \$ - |
| Intergovernmental | - | - | - |
| Miscellaneous | - | - | 35,190 |
| Total receipts | <u>1,372,302</u> | <u>-</u> | <u>35,190</u> |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | - | - | 22,612 |
| Culture and recreation | - | - | - |
| Total disbursements | <u>-</u> | <u>-</u> | <u>22,612</u> |
| Excess of receipts over disbursements | 1,372,302 | - | 12,578 |
| Other financing (uses): | | | |
| Transfers out | <u>(1,272,000)</u> | <u>-</u> | <u>-</u> |
| Change in cash balances | 100,302 | - | 12,578 |
| Cash balances beginning of year | <u>272,236</u> | <u>221,278</u> | <u>22,022</u> |
| Cash balances end of year | <u>\$ 372,538</u> | <u>\$ 221,278</u> | <u>\$ 34,600</u> |
| Cash Basis Fund Balances | | | |
| Restricted for other purposes | <u>\$ 372,538</u> | <u>\$ 221,278</u> | <u>\$ 34,600</u> |

See accompanying independent auditor's reports.

| Revenue | | | |
|------------|-----------|----------------|--------------|
| FEMA Grant | Library | Rolow Memorial | Total |
| \$ - | \$ - | \$ - | \$ 1,372,302 |
| - | 12,510 | - | 12,510 |
| - | 7,754 | - | 42,944 |
| - | 20,264 | - | 1,427,756 |
| - | - | - | 22,612 |
| - | 6,924 | - | 6,924 |
| - | 6,924 | - | 29,536 |
| - | 13,340 | - | 1,398,220 |
| - | - | - | (1,272,000) |
| - | 13,340 | - | 126,220 |
| 34,240 | 79,095 | 1,833 | 630,704 |
| \$ 34,240 | \$ 92,435 | \$ 1,833 | \$ 756,924 |
| \$ 34,240 | \$ 92,435 | \$ 1,833 | \$ 756,924 |

CITY OF GRIMES

Schedule of Indebtedness

Year ended June 30, 2018

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|---------------------------|---------------|----------------|--------------------------|
| General obligation bonds: | | | |
| Corporate purpose | Dec 1, 2012 | 2.00-2.50% | \$ 6,000,000 |
| Corporate purpose | Apr 15, 2013 | 2.00% | 1,050,000 |
| Corporate purpose | Jun 25, 2015 | 2.50-3.50% | 8,500,000 |
| Corporate purpose | May 25, 2016 | 2.00-3.00% | 5,545,000 |
| Corporate purpose | May 3, 2017 | 2.00-3.00% | 5,410,000 |
| Corporate purpose | Jun 27, 2018 | 3.00-4.00% | 9,855,000 |
| Total | | | |
| Revenue bonds: | | | |
| Water SRF | Dec 19, 2000 | 1.75% ** | \$ 611,000 |
| Water SRF | Dec 19, 2000 | 1.75% * | 5,359,000 |
| Water SRF | Jul 26, 2013 | 1.75% ** | 2,432,000 |
| Water SRF | Sep 23, 2016 | 1.75% ** | 577,000 |
| Water SRF | Jan 5, 2018 | 1.75% ** | 1,809,000 |
| Sewer SRF | Dec 19, 2000 | 1.75% * | 5,372,000 |
| Sewer SRF | Nov 4, 2016 | 1.75% ** | 3,435,000 |
| Total | | | |
| Loan agreement: | | | |
| Snow Plows/Bobcat | Jul 30, 2014 | 2.00% | \$ 400,000 |
| Lease-purchase agreement: | | | |
| Pierce Fire Truck | Dec 21, 2015 | 2.00% | \$ 700,000 |

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

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

See accompanying independent auditor's report.

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid | Interest Due and Unpaid |
|---------------------------------|--------------------------|----------------------------|---------------------------|-------------------|-------------------------------|
| \$ 4,970,000 | \$ - | \$ 285,000 | \$ 4,685,000 | \$ 105,431 | \$ - |
| 220,000 | - | 220,000 | - | 4,900 | - |
| 7,850,000 | - | 340,000 | 7,510,000 | 237,675 | - |
| 5,345,000 | - | 590,000 | 4,755,000 | 135,331 | - |
| 5,410,000 | - | 685,000 | 4,725,000 | 159,093 | - |
| - | 9,855,000 | - | 9,855,000 | - | - |
| <u>\$ 23,795,000</u> | <u>\$ 9,855,000</u> | <u>\$ 2,120,000</u> | <u>\$ 31,530,000</u> | <u>\$ 642,430</u> | <u>\$ -</u> |
| \$ 162,000 | \$ - | \$ 38,000 | \$ 124,000 | \$ 2,835 | \$ - |
| 1,388,000 | - | 329,000 | 1,059,000 | 24,290 | - |
| 1,749,000 | - | 94,000 | 1,655,000 | 30,607 | - |
| 408,120 | 71,392 | 24,000 | 455,512 | 9,364 | - |
| - | - | - | - | - | - |
| 1,463,000 | - | 343,000 | 1,120,000 | 25,602 | - |
| 2,497,729 | 406,925 | 144,000 | 2,760,654 | 56,804 | - |
| <u>\$ 7,667,849</u> | <u>\$ 478,317</u> | <u>\$ 972,000</u> | <u>\$ 7,174,166</u> | <u>\$ 149,502</u> | <u>\$ -</u> |
| <u>\$ 161,557</u> | <u>\$ -</u> | <u>\$ 78,312</u> | <u>\$ 83,245</u> | <u>\$ 4,933</u> | <u>\$ -</u> |
| <u>\$ 419,887</u> | <u>\$ -</u> | <u>\$ 137,343</u> | <u>\$ 282,544</u> | <u>\$ 8,337</u> | <u>\$ -</u> |

CITY OF GRIMES

Bond Maturities

June 30, 2018

| Year Ending June 30, | Corporate Purpose | | Corporate Purpose | | General | |
|----------------------------|--------------------|---------------------|----------------------|---------------------|-------------------|---------------------|
| | Series 2012 | | Series 2015 | | Corporate Purpose | |
| | Issued Dec 1, 2012 | | Issued June 25, 2015 | | Series 2016 | |
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount |
| 2019 | 2.00% | \$ 290,000 | 3.00% | \$ 350,000 | 2.00% | \$ 600,000 |
| 2020 | 2.00 | 300,000 | 3.00 | 360,000 | 3.00 | 625,000 |
| 2021 | 2.00 | 305,000 | 3.00 | 370,000 | 3.00 | 640,000 |
| 2022 | 2.00 | 310,000 | 2.50 | 380,000 | 3.00 | 650,000 |
| 2023 | 2.00 | 315,000 | 2.50 | 390,000 | 2.00 | 230,000 |
| 2024 | 2.00 | 325,000 | 2.75 | 400,000 | 2.00 | 235,000 |
| 2025 | 2.00 | 330,000 | 2.75 | 410,000 | 2.00 | 240,000 |
| 2026 | 2.13 | 335,000 | 3.00 | 420,000 | 2.00 | 245,000 |
| 2027 | 2.00 | 345,000 | 3.00 | 435,000 | 2.00 | 250,000 |
| 2028 | 2.00 | 350,000 | 3.00 | 450,000 | 2.13 | 250,000 |
| 2029 | 2.13 | 355,000 | 3.00 | 460,000 | 2.25 | 260,000 |
| 2030 | 2.38 | 365,000 | 3.00 | 475,000 | 2.38 | 265,000 |
| 2031 | 2.50 | 375,000 | 3.00 | 490,000 | 2.50 | 265,000 |
| 2032 | 2.50 | 385,000 | 3.00 | 510,000 | | - |
| 2033 | | - | 3.50 | 520,000 | | - |
| 2034 | | - | 3.50 | 535,000 | | - |
| 2035 | | - | 3.50 | 555,000 | | - |
| Total | | <u>\$ 4,685,000</u> | | <u>\$ 7,510,000</u> | | <u>\$ 4,755,000</u> |

See accompanying independent auditor's report.

| Obligation Bonds | | | | | |
|--|---------------------|--|---|---------------------|----------------------|
| Corporate Purpose Series 2017 Issued May 3, 2017 | | | Corporate Purpose Series 2018A Issued June 27, 2018 | | |
| Interest Rates | Amount | | Interest Rates | Amount | Total |
| 3.00% | \$ 725,000 | | 4.00% | \$ 250,000 | \$ 2,215,000 |
| 3.00 | 750,000 | | 4.00 | 250,000 | 2,285,000 |
| 3.00 | 775,000 | | 4.00 | 250,000 | 2,340,000 |
| 3.00 | 800,000 | | 4.00 | 250,000 | 2,390,000 |
| 2.25 | 825,000 | | 4.00 | 300,000 | 2,060,000 |
| 2.00 | 850,000 | | 4.00 | 300,000 | 2,110,000 |
| | - | | 3.00 | 300,000 | 1,280,000 |
| | - | | 3.00 | 750,000 | 1,750,000 |
| | - | | 3.00 | 1,000,000 | 2,030,000 |
| | - | | 3.00 | 1,000,000 | 2,050,000 |
| | - | | 3.00 | 1,000,000 | 2,075,000 |
| | - | | 3.00 | 1,000,000 | 2,105,000 |
| | - | | 3.00 | 1,050,000 | 2,180,000 |
| | - | | 3.00 | 1,050,000 | 1,945,000 |
| | - | | 3.125 | 1,105,000 | 1,625,000 |
| | - | | | - | 535,000 |
| | - | | | - | 555,000 |
| | <u>\$ 4,725,000</u> | | | <u>\$ 9,855,000</u> | <u>\$ 31,530,000</u> |

CITY OF GRIMES

Bond Maturities - Continued

June 30, 2018

| Year Ending June 30, | Water SRF | | Water SRF | | Water SRF | | Revenue | |
|---|---------------------|-------------------|---------------------|---------------------|---------------------|---------------------|------------------|-------------------|
| | Issued Dec 19, 2000 | | Issued Dec 19, 2000 | | Issued Jul 12, 2013 | | Water SRF | |
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | Interest Rate | Amount |
| 2019 | 1.75% | 40,000 | 1.75% | 341,000 | 1.75% | 96,000 | 1.75% | 25,000 |
| 2020 | 1.75 | 41,000 | 1.75 | 353,000 | 1.75 | 98,000 | 1.75 | 25,000 |
| 2021 | 1.75 | 43,000 | 1.75 | 365,000 | 1.75 | 99,000 | 1.75 | 26,000 |
| 2022 | - | - | - | - | 1.75 | 101,000 | 1.75 | 26,000 |
| 2023 | - | - | - | - | 1.75 | 104,000 | 1.75 | 27,000 |
| 2024 | - | - | - | - | 1.75 | 106,000 | 1.75 | 27,000 |
| 2025 | - | - | - | - | 1.75 | 108,000 | 1.75 | 28,000 |
| 2026 | - | - | - | - | 1.75 | 110,000 | 1.75 | 28,000 |
| 2027 | - | - | - | - | 1.75 | 112,000 | 1.75 | 29,000 |
| 2028 | - | - | - | - | 1.75 | 114,000 | 1.75 | 29,000 |
| 2029 | - | - | - | - | 1.75 | 117,000 | 1.75 | 30,000 |
| 2030 | - | - | - | - | 1.75 | 119,000 | 1.75 | 31,000 |
| 2031 | - | - | - | - | 1.75 | 121,000 | 1.75 | 31,000 |
| 2032 | - | - | - | - | 1.75 | 124,000 | 1.75 | 32,000 |
| 2033 | - | - | - | - | 1.75 | 126,000 | 1.75 | 33,000 |
| 2034 | - | - | - | - | - | - | 1.75 | 33,000 |
| 2035 | - | - | - | - | - | - | 1.75 | 34,000 |
| 2036 | - | - | - | - | - | - | 1.75 | 35,000 |
| 2037 | - | - | - | - | - | - | - | - |
| 2038 | - | - | - | - | - | - | - | - |
| Total | | <u>\$ 124,000</u> | | <u>\$ 1,059,000</u> | | <u>\$ 1,655,000</u> | | <u>\$ 529,000</u> |
| Less funds not advanced as of June 30, 2018 | | <u>-</u> | | <u>-</u> | | <u>-</u> | | <u>(73,488)</u> |
| Total Due | | <u>\$ 124,000</u> | | <u>\$ 1,059,000</u> | | <u>\$ 1,655,000</u> | | <u>\$ 455,512</u> |

See accompanying independent auditor's report.

| <u>Bonds</u> | | | | | | |
|----------------------------|--------------------|---------------------------|--------------------|----------------------------|--------------------|--------------------|
| <u>Sewer SRF</u> | | <u>Sewer SRF</u> | | <u>Water SRF</u> | | |
| <u>Issued Dec 19, 2000</u> | | <u>Issued Nov 4, 2016</u> | | <u>Issued Dec 12, 2017</u> | | |
| <u>Interest Rates</u> | <u>Amount</u> | <u>Interest Rates</u> | <u>Amount</u> | <u>Interest Rates</u> | <u>Amount</u> | <u>Total</u> |
| 1.75% | \$358,000 | 1.75% | \$147,000 | 1.75% | \$76,000 | \$1,083,000 |
| 1.75 | 373,000 | 1.75 | 150,000 | 1.75 | 78,000 | 1,118,000 |
| 1.75 | 389,000 | 1.75 | 153,000 | 1.75 | 79,000 | 1,154,000 |
| - | - | 1.75 | 156,000 | 1.75 | 80,000 | 363,000 |
| - | - | 1.75 | 159,000 | 1.75 | 82,000 | 372,000 |
| - | - | 1.75 | 163,000 | 1.75 | 83,000 | 379,000 |
| - | - | 1.75 | 166,000 | 1.75 | 85,000 | 387,000 |
| - | - | 1.75 | 169,000 | 1.75 | 86,000 | 393,000 |
| - | - | 1.75 | 172,000 | 1.75 | 88,000 | 401,000 |
| - | - | 1.75 | 176,000 | 1.75 | 89,000 | 408,000 |
| - | - | 1.75 | 179,000 | 1.75 | 91,000 | 417,000 |
| - | - | 1.75 | 183,000 | 1.75 | 92,000 | 425,000 |
| - | - | 1.75 | 187,000 | 1.75 | 94,000 | 433,000 |
| - | - | 1.75 | 190,000 | 1.75 | 96,000 | 442,000 |
| - | - | 1.75 | 194,000 | 1.75 | 97,000 | 450,000 |
| - | - | 1.75 | 198,000 | 1.75 | 99,000 | 330,000 |
| - | - | 1.75 | 202,000 | 1.75 | 101,000 | 337,000 |
| - | - | 1.75 | 206,000 | 1.75 | 103,000 | 344,000 |
| - | - | - | - | 1.75 | 104,000 | 104,000 |
| - | - | - | - | 1.75 | 106,000 | 106,000 |
| | <u>\$1,120,000</u> | | <u>\$3,150,000</u> | | <u>\$1,809,000</u> | <u>\$9,446,000</u> |
| | <u>-</u> | | <u>(389,346)</u> | | <u>(1,809,000)</u> | <u>(2,271,834)</u> |
| | <u>\$1,120,000</u> | | <u>\$2,760,654</u> | | <u>\$ -</u> | <u>\$7,174,166</u> |

CITY OF GRIMES

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

For the Last Ten Years

| | 2018 | 2017 | 2016 | 2015 |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|
| Receipts: | | | | |
| Property tax | \$ 8,142,946 | \$ 7,419,454 | \$ 6,492,546 | \$ 6,150,238 |
| Tax increment financing | 2,782,432 | 1,797,621 | 1,344,848 | 1,298,253 |
| Other city tax | 75,533 | 235,576 | 215,936 | 224,025 |
| Licenses and permits | 957,905 | 621,241 | 575,011 | 698,252 |
| Use of money and property | 107,127 | 135,996 | 192,312 | 71,657 |
| Intergovernmental | 2,820,355 | 7,769,602 | 1,952,540 | 1,828,242 |
| Charges for service | 986,159 | 760,861 | 686,458 | 595,965 |
| Special assessments | 654,243 | 127,336 | 182,091 | 161,553 |
| Miscellaneous | 789,595 | 84,301 | 109,654 | 102,384 |
| Total | \$ 17,316,295 | \$ 18,951,988 | \$ 11,751,396 | \$ 11,130,569 |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | \$ 4,331,305 | \$ 3,322,060 | \$ 2,969,314 | \$ 3,077,667 |
| Public works | 2,035,534 | 2,045,727 | 1,734,554 | 3,875,949 |
| Health and social services | 28,100 | - | - | - |
| Culture and recreation | 1,275,719 | 1,189,625 | 1,117,152 | 1,512,321 |
| Community and economic development | 181,133 | 192,037 | 118,560 | 143,281 |
| General government | 1,164,599 | 844,506 | 817,689 | 1,044,050 |
| Debt service | 3,227,895 | 8,947,462 | 3,403,085 | 2,845,086 |
| Capital projects | 7,461,570 | 13,330,469 | 5,431,157 | 6,020,914 |
| Total | \$ 19,705,855 | \$ 29,871,886 | \$ 15,591,511 | \$ 18,519,268 |

See accompanying independent auditor's report.

| 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|----------------------|----------------------|----------------------|----------------------|----------------------|---------------------|
| \$ 5,812,917 | \$ 5,384,022 | \$ 5,145,434 | \$ 5,033,717 | \$ 4,461,334 | \$ 3,805,022 |
| 1,174,536 | 1,335,445 | 1,161,927 | 1,060,037 | 812,070 | 881,205 |
| 210,131 | 204,179 | 243,855 | 226,812 | 215,732 | 197,810 |
| 466,683 | 423,560 | 345,021 | 261,512 | 349,221 | 184,396 |
| 72,145 | 67,607 | 77,028 | 146,295 | 91,697 | 282,917 |
| 1,131,826 | 1,283,467 | 2,193,161 | 4,219,426 | 1,594,655 | 560,122 |
| 615,911 | 437,434 | 355,207 | 291,711 | 247,272 | 269,886 |
| 153,437 | 199,663 | 190,504 | 273,936 | 189,244 | 60,230 |
| 93,372 | 99,578 | 90,807 | 512,549 | 1,067,568 | 1,715,428 |
| <u>\$ 9,730,958</u> | <u>\$ 9,434,955</u> | <u>\$ 9,802,944</u> | <u>\$ 12,025,995</u> | <u>\$ 9,028,793</u> | <u>\$ 7,957,016</u> |
| | | | | | |
| \$ 2,280,626 | \$ 1,771,301 | \$ 1,792,889 | \$ 1,342,355 | \$ 1,267,021 | \$ 1,126,024 |
| 1,893,484 | 1,401,187 | 2,264,122 | 1,461,193 | 1,421,463 | 1,660,313 |
| - | - | 5,809 | - | - | - |
| 1,175,528 | 869,581 | 893,848 | 937,497 | 738,238 | 778,958 |
| 129,683 | 122,300 | 122,548 | 114,011 | 112,859 | 160,916 |
| 687,525 | 655,158 | 534,360 | 521,971 | 609,524 | 577,086 |
| 2,773,233 | 3,734,868 | 3,666,018 | 2,150,932 | 1,631,804 | 1,585,293 |
| 3,442,998 | 2,683,365 | 5,094,990 | 6,624,078 | 7,150,402 | 4,089,799 |
| <u>\$ 12,383,077</u> | <u>\$ 11,237,760</u> | <u>\$ 14,374,584</u> | <u>\$ 13,152,037</u> | <u>\$ 12,931,311</u> | <u>\$ 9,978,389</u> |

City of Grimes

CITY OF GRIMES

Schedule of Expenditures of Federal Awards

June 30, 2018

| Grantor/Program | CFDA Number | Pass-Through Entity Identifying Number | Program Expenditures |
|--|----------------|--|-------------------------|
| Indirect: | | | |
| U.S. Department of Transportation: | | | |
| Iowa Department of Transportation: | | | |
| Highway Planning and Construction Cluster: | | | |
| Highway Planning and Construction | 20.205 | BRM-3125(613)-8N-77 | \$ 1,000,000 |
| U.S. Department of Transportation: | | | |
| Iowa Department of Transportation: | | | |
| Highway Planning and Construction Cluster: | | | |
| Highway Planning and Construction | 20.205 | HDP-3125(610)-71-77 | 39,161 |
| U.S. Department of Transportation: | | | |
| Iowa Department of Transportation: | | | |
| Highway Planning and Construction Cluster: | | | |
| Highway Planning and Construction | 20.205 | STP-A-141-7(46)-86-77 | <u>32,000</u> |
| Total | | | <u>\$ 1,071,161</u> |

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant award activity of the City of Grimes under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Grimes, it is not intended to and does not present the financial position, changes in financial position or cash flows of City of Grimes.

Summary of Significant Accounting Policies - Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate - The City of Grimes has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.

**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**



MARTENS & COMPANY, CPA, LLP

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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grimes, Iowa, as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 5, 2018. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

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 deficiencies in internal control described in Part II of the accompanying Schedule of Findings as items II-A-18 through II-C-18 and II-I-18 to be material weaknesses.

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 deficiencies described in the Part II of the accompanying Schedule of Findings as items II-D-18 through II-H-18 to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about City's operations for the year ended June 30, 2018 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.

City of Grimes' Responses to Findings

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

Purpose of this Report

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

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

Martens + Company, CPA, LLP

West Des Moines, Iowa
December 5, 2018

**Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by the Uniform Guidance**



MARTENS & COMPANY, CPA, LLP

CERTIFIED PUBLIC ACCOUNTANTS
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Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Honorable Mayor and Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Grimes, Iowa's compliance with types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the City of Grimes' major federal program for the year ended June 30, 2018. The City's major federal program is identified in Part I of the accompanying Schedule of Findings.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Grimes' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Grimes' compliance with those requirements and performing such other procedures we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the City of Grimes complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control over compliance, described in the accompanying Schedule of Findings as item III-A-18, we consider to be a material weakness.

The City of Grimes' response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings. The City of Grimes' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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

Martens & Company, CPA, LLP

West Des Moines, Iowa
December 5, 2018

CITY OF GRIMES

Schedule of Findings

Year ended June 30, 2018

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

- (a) Unmodified opinions were issued on the financial statements prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which are required to be reported in accordance with the Uniform Guidance, Section 200.516.
- (g) The major program was CFDA Number 20.205 - Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of Grimes did not qualify as a low-risk auditee.

CITY OF GRIMES

Schedule of Findings

Year ended June 30, 2018

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-18 Fire Association Debit Cards

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

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

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

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

Recommendation - The City Council should prohibit the use of debit cards for City purchases, including purchases by the Grimes Fire and Rescue Association (component unit).

Response - The City will draft and enforce a policy that prohibits the use of debit cards for City purchases, including a recommendation to the Grimes Fire and Rescue Association to prohibit their use also.

Conclusion - Response accepted.

II-B-18 Financial Reporting

Criteria - A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City's financial statements.

Condition - Cash records, the treasurer's report and the general ledger did not agree.

Cause - City policies do not require and procedures have not been established to require that financial reports should be in agreement with each other.

CITY OF GRIMES

Schedule of Findings

Year ended June 30, 2018

Part II: Findings Related to the Financial Statements - Continued:

Effect - Lack of policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions and adjustments to the City's financial statements are necessary.

Recommendation - The City should implement procedures to ensure that the cash records, treasurer's report and general ledger should be in agreement.

Response - We will double check this in the future to ensure the reports agree and will sign and date the approval.

Conclusion - Response accepted.

II-C-18 Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria - An effective internal control system provides for internal controls related to maintaining delinquent account listings, reconciling utility billings, collections and delinquent accounts and comparing utility collections to deposits to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances.

Condition - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits.

Cause - Policies have not been established and procedures have not been implemented to maintain delinquent account listings, reconcile utility billings, collections and delinquent account balances and to reconcile utility collections to deposits.

Effect - This condition could result in unrecorded or misstated utility receipts, improper or unauthorized adjustments and write-offs and/or misstated delinquent account balances.

Recommendation - A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquents. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

Response - These procedures will be implemented as recommended.

Conclusion - Response accepted.

CITY OF GRIMES

Schedule of Findings

Year ended June 30, 2018

Part II: Findings Related to the Financial Statements - Continued:

II-D-18 Reconciliation of Rate Changes

Criteria - An effective internal control system provides for internal controls when making rate changes to the computer programs to ensure the propriety of the new rates.

Condition - Incorrect rates were identified while testing water billings.

Cause - Policies have not been established and procedures have not been implemented to ensure that water bills reflect the correct rate calculations.

Effect - This condition could result in miscalculated water billings and a possible loss of income to the City.

Recommendation - Procedures should be established to verify that rate changes to the program were properly installed. A review of the rate change should be documented by the signature or initials of the reviewer and the date of the review.

Response - This procedure will be implemented as recommended.

Conclusion - Response accepted.

II-E-18 General Obligation Notes

Criteria - A portion of the Loan Proceeds, \$9,868,999.40, received from the sale of the Bonds shall be deposited in a dedicated fund (the "Project Fund"), which is hereby created, to be used for the payment of costs of the Projects and to the extent that Loan Proceeds remain after the full payment of the costs of the Projects, such Proceeds, shall be transferred to the Debt Service Fund for the payment of interest on the Bonds.

The remainder of the Loan Proceeds, \$38,300 (the "Cost of Issuance Proceeds"), received from the sale of the Bonds shall be deposited into the Project Fund, and shall be used for the payment of costs of issuance of the Bonds, and to the extent that Cost of Issuance Proceeds remain after the full payment of the costs of issuance of the Bonds, such Cost of Issuance Proceeds shall be transferred to the Debt Service Fund for the payment of interest on the Bonds.

The City shall keep a detailed and segregated accounting of the expenditure of, and investment earnings on, the Loan Proceeds to ensure compliance with the requirements of the Internal Revenue Code, as hereinafter defined.

Condition - No dedicated fund has been established and there is no dedicated and segregated accounting as required.

Cause - Procedures have not been designed and implemented to ensure compliance with the bond requirements.

CITY OF GRIMES

Schedule of Findings

Year ended June 30, 2018

Part II: Findings Related to the Financial Statements - Continued:

Effect - The City is not in compliance with the bond resolutions.

Recommendation - The City is required to follow the requirements as set out in the bond resolution. Procedures should be designed and implemented to ensure compliance with bond requirements.

Response - We will comply with the bond requirements.

Conclusion - Response accepted.

II-F-18 Unclaimed Property

Criteria - An effective internal control system provides for an internal controls process when disbursement checks are not cashed and become old. Such processes include establishing policies addressing reporting and disposal of old checks.

Condition - The City did not remit unclaimed property per Chapter 556.1(12) of the Code of Iowa to report to the State Treasurer annually before November 1 per chapter 556.11 of the Code of Iowa.

Cause - Officials were aware of the requirement for disposing of unclaimed property, but did not file timely.

Effect - Old, outstanding checks are carried forward monthly on the bank reconciliations.

Recommendation - The City should examine all old outstanding checks and report them to the State Treasurer annually before November 1 each year.

Response - The City will report unclaimed property to the State Treasurer by November 1 each year.

Conclusion - Response accepted.

II-G-18 Employee Handbook

Criteria - The City's employee handbook is a general informational guide to the City's current employee policies.

Condition - It was last amended on September 27, 2011.

CITY OF GRIMES

Schedule of Findings

Year ended June 30, 2018

Part II: Findings Related to the Financial Statements - Continued:

Cause - As policies change or need to be added, the handbook should be updated. Some additions might include:

1. Related party transactions
2. Confidentially agreements
3. Personal use policy
4. Evaluation of job performance

Effect - An updated employee handbook will minimize misconceptions regarding employee expectations.

Recommendation - The employee handbook should be updated periodically.

Response - The City will revise the employee handbook.

Conclusion - Response accepted.

II-H-18 Building Department

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

Condition - The Building Department has no effective policy on procedures, billing and collection designed to provide reasonable assurance that permits and inspections are billed and collected as authorized by the City.

Cause - Policies have not been established and procedures have not been implemented to assure accurate billing and collection of permits and inspections.

Effect - This condition could result in unrecorded or misbilled permits and inspections.

Recommendation - Establish an effective policy on procedures designed to provide reasonable assurance that permits and inspections are processed, billed and collected as authorized by the City.

Response - These procedures will be implemented as recommended.

Conclusion - Response accepted.

CITY OF GRIMES

Schedule of Findings

Year ended June 30, 2018

Part II: Findings Related to the Financial Statements - Continued:

II-I-18 Preparation of Schedule of Federal Awards

Criteria - The Uniform Guidance states that the auditee must prepare a Schedule of Expenditures of Federal Awards for the periods covered by the financial statements.

Condition - Through review of the City's grant activity and the process of gathering information for required reporting, we determined that there is a need for improvement in the procedures related to the preparation of the Schedule of Expenditure of Federal Awards (SEFA), including the accuracy of the CFDA numbers and the accuracy and completeness of expenditure amounts reported on the SEFA.

Cause - The City does not have a centralized process to gather the information required to be reported under the Uniform Guidance.

Effect - Initial information provided for the Schedule of Expenditures of Federal Awards was inaccurate.

Recommendation - We recommend the City create a process and designate an individual to track and accurately report all information required to be included on the SEFA.

Response and Corrective Action Planned - We will attempt to implement this recommendation.

Conclusion - Response acknowledged.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 20.205: Highway Planning and Construction

Pass-through Entity Identifying Numbers: BRM-3125(613)-8N-77

HDP-3125(610)-71-77

STP-A-141-7(46)-86-77

Federal Award Year: 2017

Prior Year Finding Number: N/A

U.S. Department of Transportation

Passed through Iowa Department of Transportation

III-A-18 (2018-001) Preparation of Schedule of Federal Awards - The City does not have a centralized process to gather the information of required to be reported under OMB Circular A-133. See item II-I-18.

CITY OF GRIMES

Schedule of Findings

Year ended June 30, 2018

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-18 Certified Budget - Disbursements during the year ended June 30, 2018 did not exceed the amounts budgeted.

IV-B-18 Questionable Disbursements - In June 2014, the City approved Resolution No 06-2814, "A Resolution Establishing Policies for Expenditure of Funds for Public Purposes". The policy states, "The City established the following activities for which tax revenues may be spent that would service to recognize volunteers of the community, maintain employee morale, and promote the community and its growth. Therefore, the following are considered appropriate public purposes for the expenditure of tax revenue. Each expenditure shall be approved by the Mayor, City Administrator or the City Council." The policy includes the following allowable "activities":

- Plaques, awards and gifts for service.
- Retirement gifts for city council, mayor or employee service over eight years in total amount not to exceed \$250.
- Coffee and refreshments for meetings, training sessions, and open houses.
- Meals and refreshments during emergency situations and public meetings held during normal meal times.
- Meals and refreshments during management breakfast or luncheon meetings, council workshop meetings or special meetings during normal meal times.
- Meals and refreshments to improve and promote employee morale and celebrate employee successes, birthdays, etc. Such meals shall be open to all employees and shall not be held more than 6 times per year.
- Meals for employees, Board and Commission members, City Council member events, events promoting the city, or events in which the city has a membership such as but not limited to; CGED Annual Dinner, the MWA Annual Dinner, MIALG meetings, IMMI meeting, etc.
- Flowers and cards for employees, Boards and Commission members, City Council members, Mayor and their families and other persons as deemed appropriate. For example, births, funerals, weddings, birthdays, and similar family events.
- Travel by the City Council, Mayor, City Administrator, City Staff and Selected City Representatives to promote the City, to promote economic development, to attend training or conferences, for the GDM Partnership Annual D.C. trip, or similar events.
- For tips at breakfast or luncheon meetings when the time and service at the establishment warrants the service staff being paid more than 15%. This amount should not exceed \$12 or 20%, whichever is greater.

CITY OF GRIMES

Schedule of Findings

Year ended June 30, 2018

Part IV: Other Findings Related to Required Statutory Reporting: Continued

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

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

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

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

Conclusion - Response accepted.

- IV-C-18 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-18 Business Transactions - No business transactions between the City and City officials or employees were noted.
- IV-E-18 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- IV-F-18 City Council Minutes - No transactions were found that we believe should have been approved in the City Council minutes but were not.

The City Council went into closed session on April 10, 2018. However, after returning to open session, the motion was "to move forward as discussed in closed session". Even when a closed session is authorized by law, any final action must be taken in open session in full view of the public, under Iowa Code Sec. 21.5(1).

Recommendation - The City should comply with Chapter 21 of the Code of Iowa and document the required specific information for closed sessions, as required.

CITY OF GRIMES

Schedule of Findings

Year ended June 30, 2018

Part IV: Other Findings Related to Required Statutory Reporting: - Continued

Response - We will comply with the Code requirements for closed sessions.

Conclusion - Response accepted.

IV-G-18 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-18 Water and Sewer Revenue Bonds - No instances of non-compliance with the provisions of the revenue bond resolutions were noted.

IV-I-18 Annual Urban Renewal Report - No instances of non-compliance with the Annual Urban Renewal Report were noted.

IV-J-18 Veteran Discount

Criteria - Chapter 388.6 of the Code of Iowa states, "A City utility or combined utility system may not provide use or service at a discriminatory rate, except to the City or its agencies, as provided in Chapter 384.94.

Condition - Veteran discounts are provided on garbage fees by the City Council. In addition, other discounts are provided to veterans that includes discounts on fire and EMS fees, building permits and use of park facilities.

Cause - Procedures have not been designed and implemented to ensure compliance with the Code of Iowa.

Effect - The City is not in compliance with the Code of Iowa on the utility system billings.

Recommendation - The City is required to establish and apply consistent billing rates to certain types of customers, such as residential or commercial. The City Council should implement procedures which ensure nondiscriminatory garbage and recycling rates are used for all customers. We also recommend the City review the other discounts to ensure the discounts represent the best interests of the City and its citizens as a whole.

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

Conclusion - Response accepted.

CITY OF GRIMES

Schedule of Findings

Year ended June 30, 2018

Part IV: Other Findings Related to Required Statutory Reporting: - Continued

IV-K-18 Termination Benefits - The employment contract for the City Administrator expired December 31, 2017. A decision was made to not renew the contract in December 2017. Per the contract, if the City does not renew the employment contract and does not give the employee at least 90 days written notice prior to the expiration of the contract, the employee shall be entitled to receive 365 days severance pay in addition to all the benefits. If proper written notice is provided to not renew the contract, the employee will be paid 3 months' salary. Since 90 days written notice of the decision to not renew the contract was not given, the City incurred additional costs. The total amount paid in relation to this contract was approximately \$198,000, which includes salary, employer share of FICA and IPERS, insurance premiums, annual group membership fees and remaining vacation for calendar years 2017 and 2018.

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

The public purpose of these actions was documented in closed session. We are unable to determine how the taxpayers' best interests were served by these actions.

Criteria - Actions taken by the City in closed session should be revealed in open session.

Condition - The finding was stated as "the public purpose of these actions was documented in closed session. We are unable to determine how the taxpayers' best interests were served by these actions".

Cause - Officials were aware of all factors involved in this termination and made their decision based, in part, on the following considerations.

1. Employee requested a closed session.
2. Employee was under contract - ran out.
3. City did not renew contract.
4. City entered into a negotiated release.
5. City attorney was present.
6. Possibility of added costs if lawsuit evolved.

Effect - Based on legal advice, council acted in the City's best interests.

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

Conclusion - Response accepted.