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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Rock Rapids provides this Management's Discussion and Analysis of its primary government 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 primary government financial statements, which follow.

### 2018 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 38.2%, or \$2,278,376, from fiscal year 2017 to fiscal year 2018. Operating grants, contributions and restricted interest decreased \$64,550; capital grants, contributions and restricted interest decreased \$2,177,470.
- Disbursements of the City's governmental activities decreased 34.5%, or \$1,898,474, in fiscal year 2018 from fiscal year 2017. Public works decreased \$398,894; community and economic development decreased \$220,482; capital projects decreased \$1,311,710.
- The City's total cash basis net position increased by 1.6%, or \$77,263, from June 30, 2017 to June 30, 2018. This increase, compared with a \$457,165 increase in fiscal year 2017, is due to a decrease in capital grants, contributions and restricted interest of \$2,177,470 from the prior fiscal year. That decrease is offset by decreases of \$398,894 in public works disbursements and \$1,311,710 in capital projects disbursements.

### 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 primary government 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 – Primary Government. This statement provides information about the activities of the City's primary government as a whole and presents an overall view of the City's finances.

The Fund Financial Statement tells how governmental services were financed in the short term as well as what remains for future spending. Also, the fund financial statement reports the City's primary government operations in more detail than the government-wide statement by providing information about the most significant primary government funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic primary government 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 funds of the City's primary government and the City's indebtedness.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements, and the primary government 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 primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-Wide Financial Statement*

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

The Cash Basis Statement of Activities and Net Position – Primary Government presents the City's primary government 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 – Primary Government consists only of governmental activities. Business type activities, consisting of electric, water, wastewater, and gas, are conducted by the Rock Rapids Municipal Utilities and reported separately. Business type activities are financed primarily by user charges. The Rock Rapids Municipal Utilities also maintains a revolving loan fund accounted for as a governmental activity (the Utilities received a "Rural Economic Development Grant" to assist with the establishment of this fund). To obtain the financial information on the Municipal Utilities, please contact the Municipal Utilities office. A copy of the Municipal Utilities' audit report is available for the public's review.

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. Program receipts; property taxes; tax increment financing; and local option sales taxes finance most of these activities.

### *Fund Financial Statements*

The primary government of the City of Rock Rapids uses governmental funds only. Proprietary funds are used to account for business type activities and, as noted above, are conducted by the Rock Rapids Municipal Utilities, which is reported separately.

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, Employee Benefits, Local Option Sales Tax, Urban Renewal Tax Increment, Revolving Loan and Library Memorial Trust; (3) the Debt Service Fund; (4) the Capital Projects Fund; and (5) the Permanent Funds, such as Library Endowment and Cemetery Perpetual Care. The governmental funds primary government financial statement provides 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 – Primary Government.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. Over the past year, the City's cash balance for primary government governmental activities increased from \$4,778,880 to \$4,856,143. The analysis that follows focuses on changes in cash basis net position for governmental activities.

Changes in Cash Basis of Net Position of Governmental Activities		
	Year Ending June 30	
	2018	2017
Receipts:		
Program Receipts:		
Charges for Service	\$ 426,558	\$ 413,664
Operating Grants, Contributions and Restricted Interest	554,397	618,947
Capital Grants, Contributions and Restricted Interest	585,692	2,763,162
General Receipts:		
Property and Other City Tax	1,361,720	1,325,624
Tax Increment Financing	187,289	183,523
Local Option Sales Tax	261,876	312,560
Grants and Contributions Not Restricted to Specific Purpose	133,568	164,988
Unrestricted Investment Earnings	16,425	12,010
Rents	27,190	31,372
State Tax Replacement	132,280	139,821
Sale of Assets	300	0
Total Receipts	<u>\$ 3,687,295</u>	<u>\$ 5,965,671</u>
Disbursements:		
Public Safety	\$ 389,181	\$ 389,523
Public Works	622,186	1,021,080
Health and Social Services	11,365	11,035
Culture and Recreation	588,046	570,691
Community and Economic Development	426,175	646,657
General Government	238,932	225,323
Debt Service	550,630	548,970
Capital Projects	783,517	2,095,227
Total Disbursements	<u>\$ 3,610,032</u>	<u>\$ 5,508,506</u>
Change in Cash Basis Net Position	\$ 77,263	\$ 457,165
Cash Basis Net Position Beginning of Year	<u>4,778,880</u>	<u>4,321,715</u>
Cash Basis Net Position End of Year	<u>\$ 4,856,143</u>	<u>\$ 4,778,880</u>

The City's total receipts for governmental activities this year was \$3,687,295, compared to \$5,965,671 last year, which is a decrease of \$2,278,376, or 38.2%. The decrease in receipts was mainly the result of decreases of \$64,550 in operating grants, contributions and restricted interest and \$2,177,470 in capital grants, contributions and restricted interest.

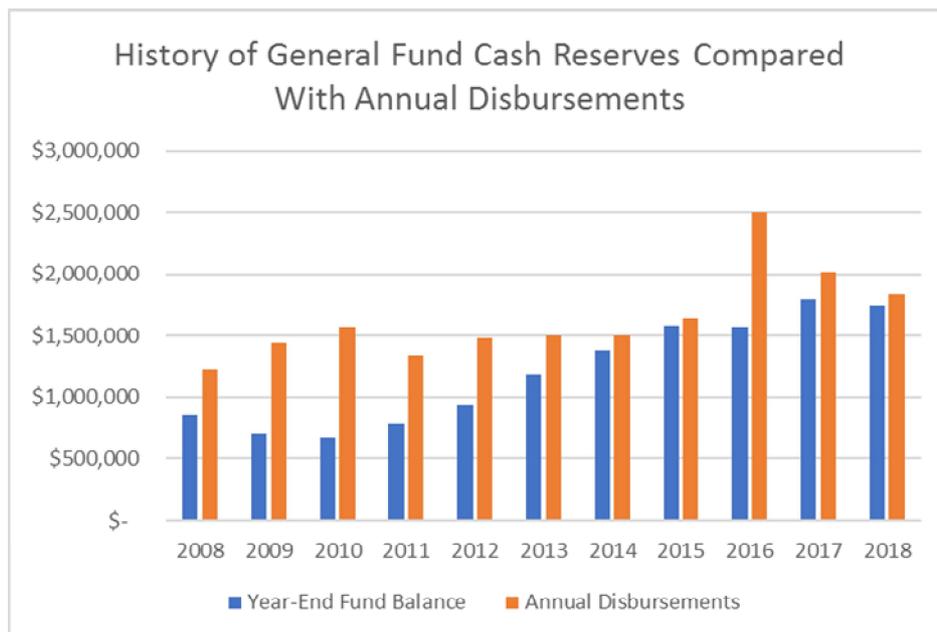
The cost of all governmental activities this year was \$3,610,032, compared to \$5,508,506 last year, which is a decrease of \$1,898,474, or 34.5%. The decrease in disbursements was due to decreases of \$398,894 in public works, \$220,482 in community and economic development, and \$1,311,710 in capital projects.

The amount taxpayers ultimately financed for these governmental activities was only \$2,043,385, because some of the cost was paid by those who directly benefited from the programs (\$426,558) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,140,089). The City paid for the remaining “public benefit” portion of governmental activities with other receipts such as property taxes, tax increment financing, local option sales tax, general grants and contributions, unrestricted investment earnings, rents, and state tax replacement.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Rock Rapids completed the year, its primary government governmental funds reported a combined cash balance of \$4,856,143, an increase of \$77,263 from last year’s total of \$4,778,880. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased by \$44,441, from \$1,796,003 to \$1,751,562, at June 30, 2018. This compares to a \$225,560 increase in the prior fiscal year. Receipts and other financing sources decreased from the prior year by \$451,751. Property and other city tax revenues decreased from the prior year by \$119,870 due to a 19.7% decrease in the general fund tax rate. Intergovernmental revenue decreases of \$277,510 resulted from decreases of \$269,292 in revenues from federal sources consisting of a Community Disaster Loan for flood disaster recovery and a Community Development Block Grant for construction of a new daycare facility. Other financing sources decreased by \$44,883 due to decreased transfers from other funds. General Fund disbursements and other financing uses decreased by \$181,750 from the prior fiscal year. Public works decreased by \$194,229 due to decreases in purchase of mobile equipment. Community and economic development decreased by \$210,415 due primarily to decreased disbursements of grant funds for a daycare project and for purchase of residential real estate. These decreases were offset by an increase of \$190,234 in other financing uses due to increased transfers to other funds.



- The Road Use Tax Fund increased by \$208,509, from \$378,546 to \$587,055, at June 30, 2018. This compares with an \$118,209 decrease in the prior fiscal year. Receipts and other financing sources increased by \$112,792 due to increases of \$13,622 in federal disaster funding and \$132,159 in transfers from other funds. These increases were offset by a \$38,474 decrease in miscellaneous revenue consisting primarily of insurance proceeds received during the prior year. Disbursements and other financing uses decreased by \$213,926 due to decreases of \$196,786 for disaster recovery and \$29,318 for equipment replacement. These decreases were offset by an increase of \$31,643 in costs for snow and ice control.
- The Library Memorial Trust Fund increased by \$4,205, from \$352,602 to \$356,807, at June 30, 2018. This increase consists of \$2,855 interest and contributions of \$1,350.
- The Debt Service Fund increased by \$2,293, from \$119,624 to \$121,917, at June 30, 2018. This compares with an \$116,988 decrease in the prior fiscal year. Receipts and other financing sources increased by \$78,804 due to an increase of \$79,619 in property and other city tax revenues that resulted from a 14.4% increase in the debt service tax rate. Disbursements and other financing uses decreased by \$40,477 due to a \$42,127 decrease, from the prior fiscal year, in transfers to the General Fund of the excess account balance after the final payment on prior year Grant Anticipation Notes.
- The Capital Projects Fund decreased by \$114,682, from \$1,569,738 to \$1,455,056, at June 30, 2018. This compares with an increase of \$491,170 in the prior fiscal year. Receipts and other financing sources decreased by \$1,917,561 due to decreases of \$1,982,826 in intergovernmental revenues consisting of federal and state Hazard Mitigation Grant Program (HMGP) funding. Disbursements and other financing uses decreased by \$1,311,710 due to the following decreases: (a) \$1,667,529 for activities relating to acquisition and demolition of flood-damaged property through the federal Hazard Mitigation Grant Program; (b) \$68,166 for non-TIF public works projects. These decreases were offset by increases of \$423,985 for TIF capital projects.

## **BUDGETARY HIGHLIGHTS**

The City did not amend its portion of the certified budget during the 2018 fiscal year. Actual receipts came in \$1,366,970, or 27.0%, below budget for the City only portion of the certified budget. Intergovernmental receipts came in \$974,808, or 45.4%, below budget, due to federal and state grant funding that came in below budget for capital projects that either remain in progress or have not yet materialized. Miscellaneous receipts came in \$284,514, or 52.9%, below budget due to private contributions coming in below budget.

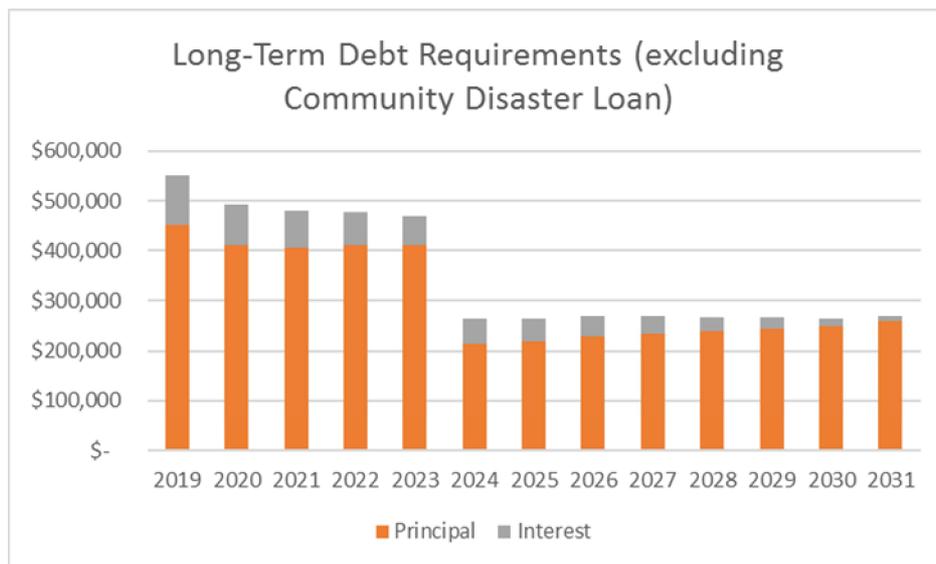
Disbursements came in \$3,739,819, or 50.9%, below budget. All functions came in below budget for the City only portion of the certified budget. Disbursements for public safety came in \$112,595, or 22.4%, below budget due to having budgeted for an internal non-expenditure transfer and fire department operating costs that came in below budget. Disbursements for public works came in \$550,386, or 46.9%, below budget due to having budgeted for an internal non-expenditure transfer and an airport project that was completed during the year but for which payment was issued in the following year. Disbursements for culture and recreation came in \$362,300, or 38.1%, below budget due to having budgeted for park and cemetery projects that did not materialize and operating costs for library and swimming pool that came in below budget. Disbursements for community and economic development came in \$696,219, or 62.0%, below budget due primarily to having budgeted for the following: (a) disbursements for the Municipal Housing Agency, a separate legal entity, for which the City always includes an estimate for possible intergovernmental receipts and related disbursements; (b) economic development projects that did not materialize. Disbursements for capital projects came in \$1,970,946, or 71.6%, below budget due to having budgeted for capital projects that have not yet materialized. The net cash change for the fiscal year came in \$2,372,849 higher than budgeted for the City only portion of the amended budget.

**DEBT ADMINISTRATION**

At June 30, 2018 the City owed \$4,493,220 in notes, bonds and other long-term debt, compared to \$4,943,220 last year, as shown below:

<b>Outstanding Debt at Year-End</b>		
TYPE OF DEBT	June 30,	
	2018	2017
General Obligation Capital Loan Notes	\$ 3,980,000	\$ 4,430,000
FEMA Community Disaster Loan	<u>513,220</u>	<u>513,220</u>
	<u>\$ 4,493,220</u>	<u>\$ 4,943,220</u>

During fiscal years 2017 and 2018, the City Council incurred a potentially forgivable general fund obligation, consisting of a Community Disaster Loan (CDL) from FEMA, in the amount of \$513,220. As of June 30, 2018, the total CDL debt of \$513,220 remains outstanding and is payable as one lump sum in fiscal year 2020 from the General Fund. (Update: On November 26, 2018, FEMA issued a letter to the City stating that the City’s application for “full cancellation of the loaned funds, as well as any interest accrued has been approved”.)



The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to five percent of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$4,493,220 is adequately below its constitutional debt limit of \$6,951,147.

More detailed information about the City’s long-term debt is presented in Note 4 to the financial statements.

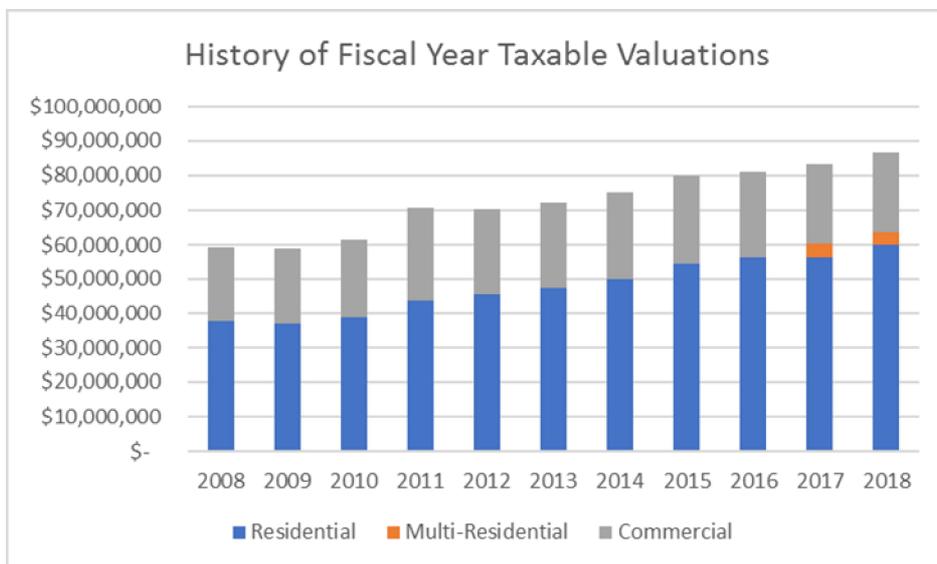
**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

Many factors were considered by the elected and appointed officials of the City of Rock Rapids when setting the fiscal year 2019 budget, tax rates and fees that will be charged for the various City activities. Among these factors are construction activity, taxable retail sales, property valuations, and long-term objectives.

Building permits for new construction issued during calendar year 2017 listed estimated costs at \$1,334,125 for residential property and \$295,835 for commercial or industrial property. This amounts to decreases from \$1,612,000 for residential property and from \$341,000 for commercial or industrial property during the previous year.

Taxable retail sales during fiscal year 2017 totaled \$30,938,538, which is an increase of \$963,786, or 3.2%, from the previous year. This compares with the previous year increase of \$241,540, or 0.8%, from the prior year. Rock Rapids presently accounts for 32.7% of totals for Lyon County, which is an increase from 31.7% during the previous year.

Consistent with goals and objectives identified in the City’s Community-Wide Strategic Plan, a/k/a Vision 2021, the fiscal year 2019 budget includes a reduction, by 2.0% from the previous year, in the total tax levy rate on regular property. This decrease in property tax rates is offset by a 6.0% increase, to \$91,727,827 in total taxable valuation (excluding agricultural), resulting in a net projected increase of \$37,899 in total property tax revenues.



Excluding capital projects, the fiscal year 2019 budget provides for a cash decrease of \$901,633, or 20.5%, of budgeted non-capital disbursements. However, due to budget surpluses that have accumulated in recent years, along with the expected non-recurrence of certain budgeted disbursements, the City is projected to maintain operating cash reserves of approximately \$2.17 million, or 49.3%, of budgeted non-capital disbursements.

Following the June, 2014 flood, the City qualified for approximately \$4.46 million in federal and state funding for disaster recovery and hazard mitigation projects. The increase in housing construction during 2014 and 2015, followed by decreased activity in 2016 and 2017, appears to coincide with the need of replacement housing for displaced flood victims, as well as changing demographics.

**CONTACTING THE CITY’S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of Rock Rapids’ finances and to demonstrate the City’s accountability for the money it receives. Questions about this report or requests for addition financial information should be addressed to: Jordan Kordahl, City Administrator, 310 South 3<sup>rd</sup> Avenue, Rock Rapids, Iowa 51246.