



Rock Rapids  
Life, Balanced.

# 2019

## CITY OF ROCK RAPIDS

Independent Auditor's Reports  
Basic Financial Statements  
Supplementary and Other Information  
Schedule of Findings and  
Questioned Costs

June 30, 2019

Prepared By:

**De Noble, Austin & Company PC**

121 South Story Street

Rock Rapids, Iowa 51246

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TABLE OF CONTENTS

	<u>EXHIBIT / SCHEDULE</u>	<u>PAGE(s)</u>
<b>Officials</b> .....		1
<b>Independent Auditor’s Report</b> .....		2-4
<b>Management’s Discussion and Analysis</b> .....		5-11
<b>Basic Primary Government Financial Statements:</b>		
Government-Wide Financial Statements:		
Cash Basis Statement of Activities and Net Position – Primary Government .....	A	14-15
Governmental Funds Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances –		
Primary Government.....	B	16-17
Notes to Primary Government Financial Statements .....		19-28
<b>Other Information:</b>		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances –		
Budget and Actual (Cash Basis) – All Governmental Funds – Primary Government .....		30
Notes to Other Information – Budgetary Reporting .....		31
Schedule of the City’s Proportionate Share of the Net Pension Liability .....		32
Schedule of City Contributions.....		33
Notes to Other Information – Pension Liability.....		34
<b>Supplementary Information:</b>		
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances –		
Nonmajor Governmental Funds – Primary Government .....	1	36
Schedule of Indebtedness – Primary Government.....	2	37
Note Maturities – Primary Government.....	3	38
Schedule of Receipts by: Source and Disbursements by Function – All Governmental		
Funds – Primary Government .....	4	39
<b>Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and</b>		
<b>Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i></b>		
<b><i>Auditing Standards</i></b> .....		
		42-43
<b>Schedule of Findings</b> .....		44-47
<b>Staff</b> .....		48

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**Officials**

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
Jason Chase	Mayor	January 1, 2020
Tami Murray	Council Member	January 1, 2020
Scott Schneidermann	Council Member	January 1, 2020
Steve Wells	Council Member	January 1, 2020
Cody Hoefert	Council Member	January 1, 2022
Ed Reck	Council Member	January 1, 2022
Jordan Kordahl	City Administrator, Clerk and Treasurer	Indefinite
Linda Trei	Deputy City Clerk	Indefinite
Dennis Haselhoff	Library Trustee	July 1, 2019
Troy Metzger	Library Trustee	July 1, 2019
Geneva Grooters	Library Trustee	July 1, 2021
Dean Shelly	Library Trustee	July 1, 2021
Terry Tausz	Library Trustee	July 1, 2021
Jessica Harman	Library Trustee	July 1, 2023
Janine DeBruin	Library Trustee	July 1, 2023
Linda McCormack	Librarian	Indefinite
Doug Van't Hof	Airport Commissioner	June 1, 2021
Mike Cleveringa	Airport Commissioner	June 1, 2023
Craig Schneidermann	Airport Commissioner	June 1, 2025
Jennifer Wippert	City Attorney	Indefinite (Appointed)



# De Noble, Austin & Company PC

CERTIFIED PUBLIC ACCOUNTANTS



121 S. Story Street | Rock Rapids, IA 51246 | www.denoblepc.com  
Phone : (712) 472-2549 | Fax : (712) 472-2540 | Email : cpas@denoblepc.com

## **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, each major fund, and the aggregate remaining fund information of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2019, and the related Notes to the Financial Statements, which collectively comprise the Basic Financial Statements of the City's primary government as listed in the Table of Contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these primary government 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 primary government 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 primary government financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 primary government 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 primary government financial statements.

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

### **MEMBERS**

American Institute - Certified Public Accountants | Private Companies Practice Section | Iowa Society - Certified Public Accountants

## **Opinions**

The financial statements referred to above include only the primary government of the City of Rock Rapids, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles prepared on the basis of accounting described in Note 1 require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2019, 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.

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, each major fund and the aggregate remaining fund information for the primary government of the City of Rock Rapids, Iowa, as of June 30, 2019, 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 primary government 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 opinion is 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 primary government financial statements that collectively comprise the City of Rock Rapids' basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the primary government financial statements for the nine fiscal years ended June 30, 2018, (which are not presented herein) and expressed unmodified opinions on those primary government financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic primary government 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 primary government financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic primary government 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 primary government financial statements or to the basic primary government 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 primary government financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information for the primary government, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 5 through 11 and 30 through 34 has not been subjected to the auditing procedures applied in the audit of the basic primary government financial statements and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2020, on our consideration of the City of Rock Rapids' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract 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 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 Rock Rapids' internal control over financial reporting and compliance.

*De Noble, Austin & Company PC*

**De Noble, Austin & Company PC**  
Certified Public Accountants

February 24, 2020

## **MANAGEMENT'S DISCUSSION & ANALYSIS**

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, 2019. We encourage readers to consider this information in conjunction with the City's primary government financial statements, which follow.

### **2019 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 8.6%, or \$317,016, from fiscal year 2018 to fiscal year 2019. Operating grants, contributions and restricted interest increased \$161,934; property and other city tax increased \$29,356; tax increment financing increased \$53,098; grants and contributions not restricted to specific purpose increased \$42,044.
- Disbursements of the City's governmental activities increased 25.4%, or \$916,021, in fiscal year 2019 from fiscal year 2018. Community and economic development increased \$148,772; capital projects increased \$762,196.
- The City's total cash basis net position decreased by 10.7%, or \$521,742, from June 30, 2018 to June 30, 2019. This decrease, compared with a \$77,263 increase in fiscal year 2018, is due to an increase of \$762,196 in capital projects disbursements from the prior year. That increase is offset by an increase of \$161,934 in operating grants, contributions and restricted interest.

### **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 as well as what remains for future spending. 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 decreased from \$4,856,144 to \$4,334,402. The analysis that follows focuses on changes in cash basis net position for governmental activities.

	Year Ending June 30	
	2019	2018
<b>Changes in Cash Basis of Net Position of Governmental Activities</b>		
Receipts:		
Program Receipts:		
Charges for Service	\$ 407,712	\$ 426,558
Operating Grants, Contributions and Restricted Interest	716,331	554,397
Capital Grants, Contributions and Restricted Interest	601,654	585,692
General Receipts:		
Property and Other City Tax	1,391,076	1,361,720
Tax Increment Financing	240,387	187,289
Local Option Sales Tax	279,077	261,876
Grants and Contributions Not Restricted to Specific Purpose	175,612	133,568
Unrestricted Investment Earnings	38,928	16,425
Rents	22,807	27,190
State Tax Replacement	122,227	132,280
Sale of Assets	8,500	300
Total Receipts	\$ 4,004,311	\$ 3,687,295
Disbursements:		
Public Safety	\$ 389,791	\$ 389,181
Public Works	655,335	622,186
Health and Social Services	11,365	11,365
Culture and Recreation	586,052	588,046
Community and Economic Development	574,947	426,175
General Government	219,690	238,932
Debt Service	543,160	550,630
Capital Projects	1,545,713	783,517
Total Disbursements	\$ 4,526,053	\$ 3,610,032
Change in Cash Basis Net Position	\$ (521,742)	\$ 77,263
Cash Basis Net Position Beginning of Year	4,856,144	4,778,881
Cash Basis Net Position End of Year	\$ 4,334,402	\$ 4,856,144

The City's total receipts for governmental activities this year was \$4,004,311, compared to \$3,687,295 last year, which is an increase of \$317,016, or 8.6%. The increase in receipts was mainly the result of increases of \$161,934 in operating grants, contributions and restricted interest, \$29,356 in property and other city tax, \$53,098 in tax

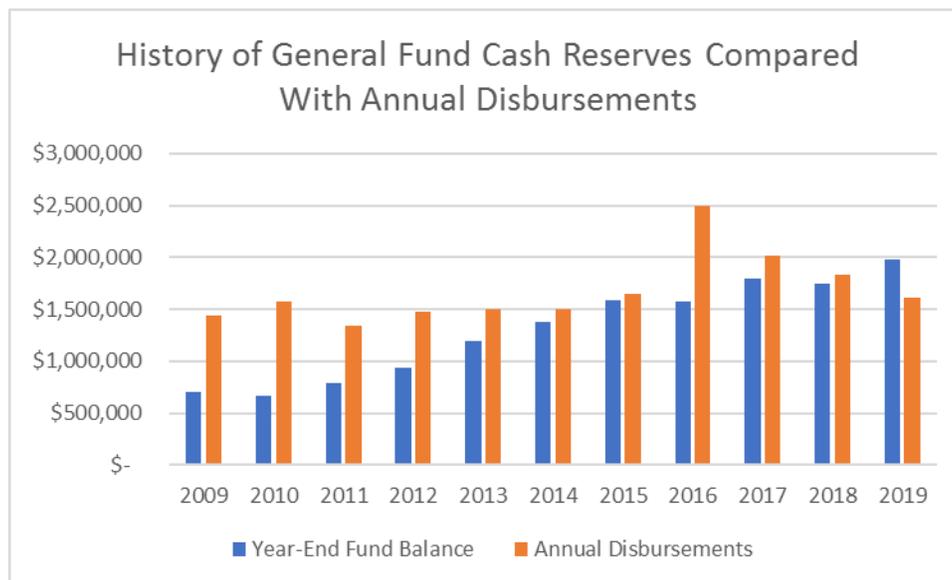
increment financing and \$42,044 in grants and contributions not restricted to specific purpose. The cost of all governmental activities this year was \$4,526,053, compared to \$3,610,032 last year, which is an increase of \$916,021, or 25.4%. The increase in disbursements was due to increases of \$148,772 in community and economic development and \$762,196 in capital projects.

The amount taxpayers ultimately financed for these governmental activities was only \$2,800,356, because some of the cost was paid by those who directly benefited from the programs (\$407,712) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,317,985). 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 \$4,334,402, a decrease of \$521,742 from last year’s total of \$4,856,144. 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 by \$229,837, from \$1,751,562 to \$1,981,399, at June 30, 2019. This compares to a \$44,441 decrease in the prior fiscal year. Receipts and other financing sources increased from the prior year by \$52,427. Property and other city tax revenues increased from the prior year by \$88,369 due to a 10.0% increase in the general fund tax rate. This increase was offset by a \$33,409 decrease in miscellaneous revenues due to decreases in receipts from contributions and sale of property. General Fund disbursements and other financing uses decreased by \$221,851 from the prior fiscal year due primarily to a \$206,497 decrease in transfers to other funds.



- The Road Use Tax Fund increased by \$226,349, from \$587,056 to \$813,405, at June 30, 2019. This compares with a \$208,509 increase in the prior fiscal year. Receipts and other financing sources increased by \$99,721 due to an increase of \$214,702 in federal and state disaster funding. That increase was offset by a decrease of \$123,978 in transfers from other funds. Disbursements and other financing uses increased by \$81,881 due to increases of \$36,819 for equipment replacement and \$45,062 for costs of operation and maintenance.
- The Revolving Loan Fund decreased by \$58,782, from \$221,966 to \$163,184, at June 30, 2019. This decrease, which compares with a \$25,012 increase in the prior fiscal year, is due to an increase of \$92,000 in loan distributions. The increase in disbursements is offset by increases of \$8,206 in receipts consisting of repayment of principal and interest on outstanding loans and interest earned on bank accounts.

- The Capital Projects Fund decreased by \$899,593, from \$1,455,057 to \$555,464, at June 30, 2019. This compares with a decrease of \$114,681 in the prior fiscal year. Disbursements and other financing uses increased by \$771,484 due to increases of \$159,562 for TIF projects and \$611,922 for non-TIF projects.

## BUDGETARY HIGHLIGHTS

The City did not amend its portion of the certified budget during the 2019 fiscal year. Actual receipts came in \$906,799, or 18.5%, below budget for the City’s portion of the certified budget. Local option sales taxes came in \$100,923, or 26.6%, below budget due to having budgeted for sales tax collections on construction of a new hospital project that was later determined to be exempt from sales tax. Use of money and property came in \$38,028, or 66.5%, above budget due to interest income coming in above budget. Intergovernmental receipts came in \$471,505, or 25.2%, below budget, due to federal grant funding that came in below budget for capital projects that either remain in progress or have not yet materialized. Miscellaneous receipts came in \$295,167, or 56.1%, below budget due to private contributions coming in below budget and to having budgeted for intra-fund transfers.

Disbursements came in \$2,243,801, or 33.1%, below budget. All functions came in below budget for the City’s portion of the certified budget. Disbursements for public safety came in \$335,216, or 46.2%, below budget due to having budgeted for an intra-fund transfer and for purchase of fire equipment that has not yet materialized. Disbursements for community and economic development came in \$525,832, or 47.8%, 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 budget includes an estimate for possible intergovernmental receipts and related disbursements; (b) economic development projects that did not materialize. Disbursements for capital projects came in \$831,285, or 35.0%, below budget due to having budgeted for capital projects that have not yet materialized. The net cash change for the fiscal year came in \$1,337,003 higher than budgeted for the City only portion of the amended budget.

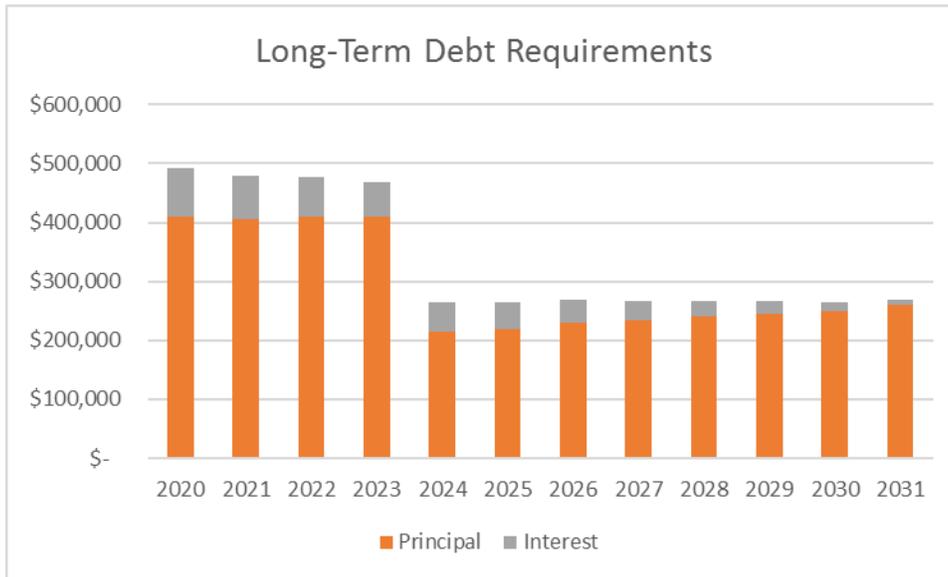
## DEBT ADMINISTRATION

At June 30, 2019 the City owed \$3,530,000 in notes and other long-term debt, compared to \$4,493,220 last year, as shown below:

	<b>Outstanding Debt at Year-End</b>	
	June 30,	
	2019	2018
General Obligation Capital Loan Notes	\$ 3,530,000	3,980,000
Community Disaster Loan	0	513,220
Total	<u>\$ 3,530,000</u>	<u>4,493,220</u>

During fiscal year 2017, the City of Rock Rapids incurred a potentially forgivable Community Disaster Loan (CDL) from FEMA, amounting to \$513,220 and payable from the general fund as one lump sum in fiscal year 2020. On Nov 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 \$3,530,000 is adequately below its constitutional debt limit of \$7,483,239.



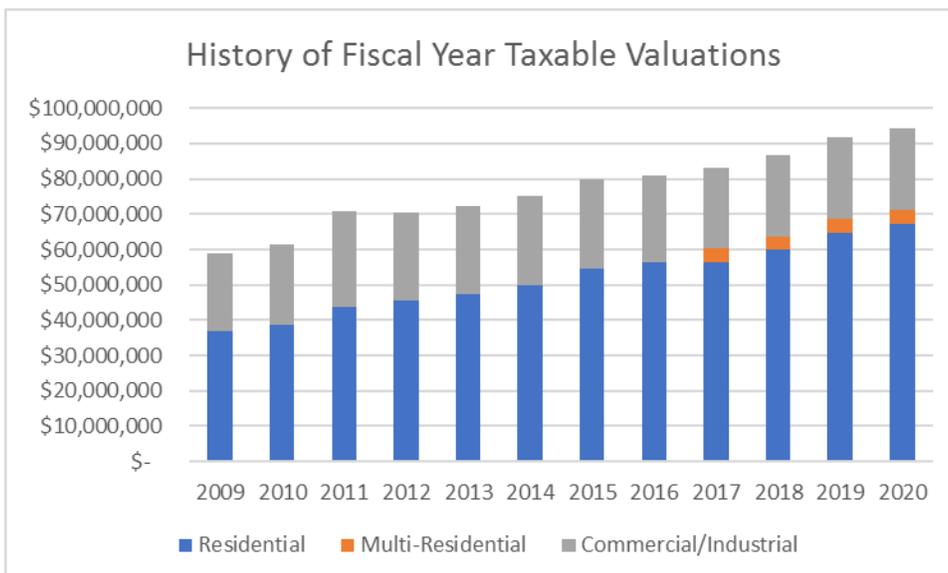
More detailed information about the City’s long-term debt is presented in Note 4 to the financial statements.

### 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 2020 budget, tax rates and fees that will be charged for the various City activities. Among these factors are construction activity, property valuations, taxable retail sales, and accumulated reserves.

Building permits for new construction issued during calendar year 2018 listed estimated costs at \$1.5 million for residential property and \$5.1 million for commercial/industrial property. This amounts to increases from \$1.3 million for residential property and from \$300,000 for commercial/industrial property during the previous year. Included in the building permits for commercial property are an expansion project for Casey’s Convenience Store and the construction of a new Sanford Medical Clinic, which together account for \$4.8 million of the total.

Total taxable valuation (excluding agricultural) increased by 3.0%, to \$94.5 million, from the previous year. This increase, which compares with the previous year increase of 6.0% and average annual increases of 4.6% for the previous 10 years, is offset by a 2.0% reduction in the total tax levy rate on regular property, to \$16.66 per \$1,000 of taxable valuation, resulting in a net projected increase of \$2,005 in total property tax revenues.



Taxable retail sales during fiscal year 2018 totaled \$31,291,111, which is an increase of \$352,573, or 1.1%, from the previous year. This compares with the previous year increase of \$963,786, or 3.2%, from the prior year. Rock Rapids presently accounts for 32.3% of totals for Lyon County, which is a decrease from 32.7% during the previous year.

Excluding capital projects, the fiscal year 2020 budget provides for a cash decrease of \$629,295, or 14.1% of budgeted non-capital disbursements. However, as a result of budget surpluses that have accumulated in recent years, the City is projected to maintain operating cash reserves of approximately \$2.49 million, or 55.8% of budgeted non-capital disbursements.

## **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.

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Basic Primary Government  
Financial Statements  
City of Rock Rapids

# CITY OF ROCK RAPIDS

## Basic Primary Government Financial Statements

### Exhibit A – Statement of Activities and Net Position – Cash Basis

#### Primary Government

As of and for the Year Ended June 30, 2019

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest	Governmental Activities
<b>Functions/Programs:</b>					
Governmental Activities:					
Public Safety	\$ 389,791	0	61,827	0	(327,964)
Public Works	655,335	234,645	558,188	0	137,498
Health and Social Services	11,365	0	0	0	(11,365)
Culture and Recreation	586,052	110,237	41,811	0	(434,004)
Community and Economic Development	574,947	38,593	32,361	0	(503,993)
General Government	219,690	6,326	16,635	0	(196,729)
Debt Service	543,160	17,911	5,509	0	(519,740)
Capital Projects	1,545,713	0	0	601,654	(944,059)
Total Governmental Activities	\$ 4,526,053	407,712	716,331	601,654	(2,800,356)

**General Receipts:**

Property and Other City Tax Levied for:

General Purposes	\$	751,489
Employee Benefits		172,844
Debt Service		466,743
Tax Increment Financing		240,387
Local Option Sales Tax		279,077
Business Tax Credits		122,227
Grants and Contributions not Restricted to Specific Purpose		175,612
Unrestricted Interest on Investments		38,928
Rents		22,807
Sale of Capital Assets		8,500
		<hr/>
Total General Receipts		2,278,614
		<hr/>
Change in Cash Basis Net Position		(521,742)
Cash Basis Net Position Beginning of Year		4,856,144
		<hr/>
Cash Basis Net Position End of Year	\$	4,334,402
		<hr/> <hr/>
<b>Total Cash Basis Net Position</b>		

Restricted:

Nonexpendable - Library Endowment & Cemetery Perpetual Care	\$	109,143
Expendable:		
Road Use Tax (Streets)		813,404
Library Projects		362,345
Debt Service		104,326
Capital Projects		555,464
Other Purposes		408,321
Unrestricted		1,981,399
		<hr/>
<b>Total Cash Basis Net Position</b>	\$	4,334,402
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See Notes to Financial Statements

# CITY OF ROCK RAPIDS

## Basic Primary Government Financial Statements

### Exhibit B – Statement of Cash Receipts, Disbursements and Changes in Cash Balances

#### Primary Government

As of and for the Year Ended June 30, 2019

	Special Revenue						Total
	General	Road Use Tax	Library Memorial Trust	Debt Service	Capital Projects	Nonmajor Governmental Funds	
<b>Receipts:</b>							
Property Tax	\$ 749,813	0	0	465,926	0	172,508	1,388,247
Tax Increment Financing	0	0	0	0	0	237,725	237,725
Other City Tax	1,677	0	0	817	0	279,413	281,907
Licenses and Permits	12,001	0	0	0	0	0	12,001
Use of Money and Property	63,536	0	3,783	5,509	16,821	5,560	95,209
Intergovernmental	249,714	557,619	0	35,406	524,833	34,140	1,401,712
Charges for Service	337,511	0	0	0	0	0	337,511
Special Assessments	0	0	0	17,911	0	0	17,911
Miscellaneous	132,063	954	1,755	0	60,000	28,817	223,589
<b>Total Receipts</b>	<b>1,546,315</b>	<b>558,573</b>	<b>5,538</b>	<b>525,569</b>	<b>601,654</b>	<b>758,163</b>	<b>3,995,812</b>
<b>Disbursements:</b>							
<b>Operating:</b>							
Public Safety	386,086	0	0	0	0	3,705	389,791
Public Works	246,980	348,352	0	0	0	60,003	655,335
Health and Social Services	11,365	0	0	0	0	0	11,365
Culture and Recreation	522,342	0	0	0	0	63,710	586,052
Community and Economic Development	265,967	0	0	0	0	308,980	574,947
General Government	183,367	0	0	0	0	36,323	219,690
Debt Service	0	0	0	543,160	0	0	543,160
Capital Projects	0	0	0	0	1,545,713	0	1,545,713
<b>Total Disbursements</b>	<b>1,616,107</b>	<b>348,352</b>	<b>0</b>	<b>543,160</b>	<b>1,545,713</b>	<b>472,721</b>	<b>4,526,053</b>

Excess (Deficiency) of Receipts Over (Under)							
Disbursements	(69,792)	210,221	5,538	(17,591)	(944,059)	285,442	(530,241)
Other Financing Sources (Uses):							
Sale of Capital Assets	1,000	7,500	0	0	0	0	8,500
Operating Transfers In	298,629	8,628	0	0	53,755	660	361,672
Operating Transfers Out	0	0	0	0	(9,288)	(352,384)	(361,672)
Total Other Financing Sources (Uses)	299,629	16,128	0	0	44,467	(351,724)	8,500
Net Change in Cash Balances	229,837	226,349	5,538	(17,591)	(899,592)	(66,282)	(521,741)
Cash Balances Beginning of Year	1,751,562	587,055	356,807	121,917	1,455,056	583,746	4,856,143
Cash Balances End of Year	\$ 1,981,399	813,404	362,345	104,326	555,464	517,464	4,334,402
<b>Cash Basis Fund Balances</b>							
Nonspendable - Library Endowment & Cemetery Perpetual Care	\$ 0	0	0	0	0	109,143	109,143
Restricted for:							
Road Use Tax (Streets)	0	813,404	0	0	0	0	813,404
Library Projects	0	0	362,345	0	0	0	362,345
Debt Service	0	0	0	104,326	0	0	104,326
Capital Projects	0	0	0	0	555,464	0	555,464
Other Purposes	0	0	0	0	0	408,321	408,321
Committed	98,415	0	0	0	0	0	98,415
Assigned	1,097,799	0	0	0	0	0	1,097,799
Unassigned	785,185	0	0	0	0	0	785,185
Total Cash Basis Fund Balances	\$ 1,981,399	813,404	362,345	104,326	555,464	517,464	4,334,402

See Notes to Financial Statements.

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# CITY OF ROCK RAPIDS

## Notes to Financial Statements

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### Notes to Financial Statements

June 30, 2019

#### Note 1: Summary of Significant Accounting Policies

The City of Rock Rapids is a political subdivision of the State of Iowa located in Lyon County. It was first incorporated in 1885 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.

##### **A. Reporting Entity**

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

These financial statements present the City of Rock Rapids (the primary government). As noted in the Independent Auditor's Report, the component units discussed below are not included in the financial statements. The primary government financial statements, because they do not include the financial data of the component units of the City of Rock Rapids, do not purport to, and do not present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2019, and the changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described here in Note 1.

**Component Units** – If it were not for the City preparing financial statements of the primary government only, the Rock Rapids Municipal Utilities and the Rock Rapids Municipal Housing Agency would be included as part of the City's reporting entity because of the significance of each organization's operational or financial relationship with the City. The Rock Rapids Municipal Utilities and the Rock Rapids Municipal Housing Agency would be presented as discretely presented component units in a separate column in the Statement of Activities and Net Position – Cash Basis to emphasize that each is legally separate from the City, but are financially accountable to the City, or whose relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete.

The Municipal Utilities is governed by a three-member board appointed by the Mayor and approved by the City Council and the Municipal Utilities operating budget is approved by the City Council. 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. The Rock Rapids Municipal Housing Agency is governed by a five-member board appointed by the Mayor and City Council and the City has the ability to impose its will on the Housing Agency by influencing the programs, projects, activities and level of services performed/provided by the Housing Agency. To obtain financial information on the Housing Agency, please contact the Chamber of Commerce/Municipal Housing office.

The City received \$109,869 from the Rock Rapids Municipal Utilities during the fiscal year ended June 30, 2019 (\$104,589 in intergovernmental receipts and \$5,280 in charges for service). The intergovernmental receipts from the Rock Rapids Municipal Utilities consisted of \$93,421 of donations and \$11,168 for the Utilities share of the residential demolition program. Additionally, the Rock Rapids Municipal Utilities purchased a dump truck for \$7,500 from the City and reimbursed the City \$48,698 for costs related to the Story Street water main

improvements project. The City paid the Rock Rapids Municipal Utilities \$5,000 for rent and \$11,810 for garbage/recycling billing and collection services. The City also pays the Utilities for utility services and both entities charge each other for any occasional labor and materials provided to each other. The City received \$10,110 in intergovernmental receipts (payment in lieu of taxes) from the Rock Rapids Municipal Housing Agency during the fiscal year ended June 30, 2019. The City did not pay any money to the Rock Rapids Municipal Housing Agency during the fiscal year ended June 30, 2019.

**Jointly Governed Organizations** – The City also 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: Lyon County Assessor’s Conference Board, Lyon County Joint E911 Service Board, Lyon County Emergency Management Commission, the Northwest Iowa Area Solid Waste Agency, the Lyon County Economic Development Consortium, the Northwest Iowa Regional Housing Authority, the Rock Rapids Development Corporation, the Rock Rapids Chamber of Commerce, and the Hazardous Material Response Commission (HAZMAT).

## **B. Basis of Presentation**

**Government-Wide Financial Statement** – The Cash Basis Statement of Activities and Net Position – Primary Government reports information on all of the nonfiduciary activities of the City’s primary government. For the most part, the effect of interfund activity has been removed from this statement. This financial statement reports governmental activities which are supported to a significant extent by tax and intergovernmental revenues.

The Cash Basis Statement of Activities and Net Position – Primary Government presents the City’s primary government nonfiduciary net position. Net position is reported in the following categories/components:

- *Nonexpendable restricted net position* is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City’s Permanent Funds (the Library Endowment and Cemetery Perpetual Care Funds).
- *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.
- *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 – Primary Government 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 Statement** – A separate financial statement is provided for the primary government governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statement. 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 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 the road use tax allocation from the State of Iowa to be used for road construction and maintenance.  
  
The Library Memorial Trust Fund is used to account for library projects financed by donations and investment income.
- 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 utilized to account for all resources used in the acquisition and/or construction of major capital equipment and facilities for the City.

**C. Measurement Focus and 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.

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

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

**D. Governmental Cash Basis Fund Balances**

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

- **Nonspendable** – Amounts which cannot be spent because they are legally or contractually required to be maintained intact (the City’s Permanent Funds).
- **Restricted** – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or are imposed by law through constitutional provisions or enabling legislation (the City’s Special Revenue, Debt Service and Capital Projects Funds).
- **Committed** – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the Council through ordinance or resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same action it employed to commit those amounts (General Fund : Library purposes - \$98,415).
- **Assigned** – Amounts the Council intends to use for specific purposes (General Fund: Community Center Purposes - \$208,057, Park Improvement Purposes - \$122,212, Fire Department Purposes - \$539,868, Airport Purposes - \$67,978, Lyon County Riverboat Foundation Receipts for Special Projects - \$69,684 and Trees Purposes - \$90,000).
- **Unassigned** – All amounts not included in the preceding classifications.

**E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2019, disbursements for the City of Rock Rapids only portion of the budget did not exceed the amounts budgeted in any function.

**Note 2: Cash and Pooled Investments**

The City’s deposits in banks at June 30, 2019 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute and its written investment policy 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.

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

**Note 3: Notes Receivable - Revolving Loan Fund**

The City established a Revolving Loan Fund for the purpose of lending monies for various economic development projects at a reasonable rate of interest to promote economic development within the City.

The notes issued are payable over ten years at a rate ranging from 3.25% to 4.75%, with an adjustable rate to be determined after five years based on the Wall Street prime interest rate plus 0.25%. The balances as of June 30, 2019, are computed as follows:

Balance on June 30, 2018	\$ 64,500
New Notes Issued	92,000
Payments on Principal	<u>( 27,660)</u>
Balance on June 30, 2019	<u>\$ 128,840</u>

The following are the scheduled amounts of notes receivable principal (net of \$0 in allowance for doubtful accounts) coming due for the fiscal years ending:

<u>Fiscal Year Ended June 30:</u>	<u>Principal Payments</u>
2020	\$ 21,710
2021	20,697
2022	15,206
2023	11,828
2024	11,360
2025-2030	<u>48,039</u>
Total	<u>\$ 128,840</u>

Interest received on the notes receivable was \$3,203 during fiscal year June 30, 2019.

#### Note 4: Notes Payable

Annual debt service requirements to maturity for general obligation capital loan notes are as follows:

Fiscal Year Ended June 30,	General Obligation Capital Loan Notes	Interest	Total
2020	\$ 410,000	82,680	492,680
2021	405,000	74,900	479,900
2022	410,000	66,800	476,800
2023	410,000	58,200	468,200
2024	215,000	49,300	264,300
2025 – 2029	1,170,000	162,625	1,332,625
2030 – 2031	510,000	22,475	532,475
Total	\$ 3,530,000	516,980	4,046,980

During the fiscal year ended June 30, 2019, the City redeemed principal on general obligation capital loan notes of \$450,000, paid \$90,660 in interest on the long-term debt, and paid \$1,500 in note fees. The general obligation capital loan notes were redeemed through the Debt Service Fund in the fiscal year ended June 30, 2019.

During the fiscal year ended June 30, 2016, the City was approved for a Community Disaster Loan from the U.S. Department of Homeland Security, Federal Emergency Management Agency (the Agency) up to \$513,220 for the purchase of equipment to replace equipment destroyed in the 2014 flood disaster. The loan accrued interest at a 1.75% interest rate, with principal and interest due June 8, 2020. On November 26, 2018, in accordance with provisions of the loan program, the City received notice from the Agency stating that the City's application for full cancellation of the loaned funds, as well as any interest accrued had been approved.

Due to the primary government financial statements being prepared on the cash basis, these notes payable are not reflected on the City's financial statements.

#### Note 5: 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 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](http://www.ipers.org).

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

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

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

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 that the member receives benefits before age 65.

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

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

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

In fiscal year 2019, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%. The City's contributions to IPERS for the year ended June 30, 2019 were \$57,878.

**Net Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - At June 30, 2019, the City reported a liability of \$507,164 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2018, the City's proportion was 0.008017%, which was an increase of 0.000051% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019 the City's pension expense, deferred outflows and deferred inflows totaled \$68,716, \$134,224 and \$84,491 respectively.

There were no non-employer contributing entities to IPERS.

**Actuarial Assumptions** - The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of Inflation (Effective June 30, 2017)	2.60% per Annum
Rates of Salary Increase (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, 2018 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2018 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

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:

<b>Asset Class</b>	<b>Asset Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Equity	22.0%	6.01%
International Equity	15.0	6.48
Global Smart Beta Equity	3.0	6.23
Core Plus Fixed Income	27.0	1.97
Public Credit	3.5	3.93
Public Real Assets	7.0	2.91
Cash	1.0	( 0.25)
Private Equity	11.0	10.81
Private Real Assets	7.5	4.14
Private Credit	3.0	3.11
<b>Total</b>	<b>100.0%</b>	

**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 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 7.0%, 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 (6.0%) or 1-percentage-point higher (8.0%) than the current rate.

	<b>1% Decrease (6.00%)</b>	<b>Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
County's Proportionate Share of the Net Pension Liability	\$ 860,759	507,164	510,550

**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](http://www.ipers.org).

**Note 6: 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 plan members are \$472 for single coverage and \$1,180 for family coverage. For the year ended June 30, 2019, the City contributed \$75,364 and plan members eligible for benefits contributed \$19,525 to the plan. At June 30, 2019, 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 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, 2019, there were 10 active employees covered by the benefits terms and 0 inactive employees or beneficiaries currently receiving benefit payments.

**Note 7: Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation 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 and sick leave payable to employees at June 30, 2019, primarily relating to the General and Road Use Tax Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 62,606
Sick Leave	22,673
<b>Total</b>	<b>\$ 85,279</b>

All of an employee’s vacation is paid upon retirement, termination or death. If an employee, except a Library employee, has ten or more years of service with the City, 15% of sick leave is paid upon retirement, termination or death. No sick leave is paid upon retirement, termination or death for Library employees. The amount of sick leave reported above only includes the sick leave for eligible employees that have attained the ten years or more of service requirement. This liability has been computed based on rates of pay in effect at June 30, 2019.

**Note 8: Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2019 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 280,000
	Urban Renewal Tax Increment	18,629
Special Revenue:	Special Revenue:	
Road Use Tax	Urban Renewal Tax Increment	8,628
Employee Benefits	Urban Renewal Tax Increment	660
Capital Projects	Urban Renewal Tax Increment	53,755
Total		<u>\$ 361,671</u>

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

## **Note 9: Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are mainly covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## **Note 10: Intergovernmental Agreement**

The City has entered into an agreement with the Northwest Iowa Area Solid Waste Agency, a political subdivision created in accordance with Chapter 28E of the Code of Iowa, for disposal of solid waste produced or generated from within the City. There were no payments made directly to the Northwest Iowa Area Solid Waste Agency by the City during the fiscal year ended June 30, 2019.

State and Federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The closure and post closure costs to the Agency have been estimated at \$3,462,610 as of June 30, 2019, and the portion of the liability that has been recognized by the Agency as of June 30, 2019, is \$3,005,412.

The estimated remaining life of the landfill is 3 years and the capacity used at June 30, 2019, is approximately 92%. The Agency has begun to accumulate resources to fund these costs. As of June 30, 2019, assets of \$1,964,740 are restricted for these purposes. The Agency has fully demonstrated financial assurance for closure and post closure care costs as required by Chapter 113 of the Iowa Administrative Code. No estimate has been made as to the possibility of any future assessments to the City.

## **Note 11: Development Agreement**

The City entered into an agreement for private development with the Rock Rapids Development Corporation, Inc. (the RRDC). The agreement proposed the City will transfer development property to the RRDC for the aggregate purchase price of \$40,000, with payment due in full by June 30, 2024. The property is eligible to be redeveloped as part of the Forster Urban Renewal Area. The RRDC agrees to construct minimum improvements and certain public improvements to the area. In return, the City will make economic development grants to RRDC for 66.16% of the tax increments generated by the construction of the minimum improvements. The tax increment collections received and rebated to the RRDC will be used as payment to pay off the outstanding balance due for the property purchase.

## **Note 12: 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, 2019, \$63,608 of property was diverted from the City under the urban renewal and economic development projects.

**Note 13: Commitments**

In May 2018, the City entered into a construction contract with Vander Pol Excavating for \$629,296 for Story Street paving project to be paid from the Capital Projects Fund. As of June 30, 2019, the total amount paid from the Capital Projects Fund was \$596,368. The project was completed during fiscal year 2020 and the total contract payments with change orders was \$651,230.

In March 2019, the City entered into a construction contract with Christensen Bros Inc for \$1,479,506 for North Union Street Bridge project to be paid from the Capital Projects Fund. As of June 30, 2019, the total amount paid from the Capital Projects Fund was \$269,796; subsequent to fiscal year 2019, an additional \$835,714 was paid. The project is still in process.

In May 2019, the City entered into a contract with Hulstein Excavating for the South 10<sup>th</sup> Avenue Road Project for \$507,480 to be paid from the Capital Projects Fund. As of June 30, 2019, the project had not been started. Subsequent to fiscal year 2019, \$409,848 has been paid from the Capital Projects Fund for work completed during fiscal year 2020.

In March 2019, the Council approved to issue \$2,150,000 G.O. Capital Loan Notes, series 2019 for essential corporate purposes to include: improvements to right-of-way of streets, etc; removal and replacement of dead/diseased trees; street improvements; bridge repair; sidewalks, culverts, sewers, water lines, lighting and traffic control repair or installation; and purchase of real estate for any such projects. The loan was issued in July 2019.

**Note 14: Subsequent Events**

In October 2019, the Council approved a contribution in the amount of \$175,000 from the General Fund to the Rock Rapids Development Corporation. The contribution was for the purchase and acquisition of real property for economic development purposes.

In July 2019, the City approved the contract for the 2019 Sanitary Sewer Lining Project to Visu-Sewer for \$372,167 (with change order). The Rock Rapids Municipal Utilities will reimburse the City 50% of the total project. The project is currently in process and \$218,813 has been paid from the Capital Projects Fund to Visu-Sewer.

In January 2020, the Council approved the purchase of real property from First Church of Christ. The property was purchased for \$80,000 which will be paid from the Fire Capital Reserve in the General Fund.

**Other Information**  
City of Rock Rapids

# CITY OF ROCK RAPIDS

Other Information

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

Year Ended June 30, 2019

	Governmental Funds Actual	Budgeted Amounts Original/Final	Final to Actual Variance
Receipts:			
Property Tax	\$ 1,388,247	1,454,379	( 66,132)
Tax Increment Financing	237,725	257,554	( 19,829)
Other City Tax	281,907	380,032	( 98,125)
Licenses and Permits	12,001	10,000	2,001
Use of Money and Property	95,209	57,180	38,029
Intergovernmental	1,401,712	1,870,556	( 468,844)
Charges for Service	337,511	343,810	( 6,299)
Special Assessments	17,911	10,000	7,911
Miscellaneous	223,589	527,600	( 304,011)
Total Receipts	3,995,812	4,911,111	( 915,299)
Disbursements:			
Public Safety	389,791	725,007	( 335,216)
Public Works	655,335	937,246	( 281,911)
Health and Social Services	11,365	21,000	( 9,635)
Culture and Recreation	586,052	780,258	( 194,206)
Community and Economic Development	574,947	1,100,779	( 525,832)
General Government	219,690	269,925	( 50,235)
Debt Service	543,160	558,641	( 15,481)
Capital Projects	1,545,713	2,377,000	( 831,287)
Total Disbursements	4,526,053	6,769,856	(2,243,803)
Excess (Deficiency) of Receipts Under (Over)			
Disbursements	( 530,241)	( 1,858,745)	( 1,328,504)
Other Financing Sources (Uses)	8,500	0	8,500
Net Change in Cash Balances	( 521,741)	( 1,858,745)	( 1,337,004)
Balances Beginning of Year	4,856,143	4,725,636	130,507
Balances End of Year	\$ 4,334,402	2,866,891	( 1,467,511)

- Note: These figures do not reflect amounts included in the City's legally adopted budget for the Rock Rapids Municipal Utilities, which is a component unit that was audited separately. The amounts that were removed for the Rock Rapids Municipal Utilities from the original budget included \$4,863,980 in receipts (charges for services) and \$5,196,484 in disbursements (business-type activities).

See Accompanying Independent Auditor's Report.

# CITY OF ROCK RAPIDS

## Other Information

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### **Notes to Other Information – Budgetary Reporting**

Year Ended June 30, 2019

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 Internal Service Funds (which there are none) for the City of Rock Rapids. The City's adopted budget includes the Rock Rapids Municipal Utilities, which is a legally separate 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, the Permanent Funds, 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 fiscal year, there were no amendments to the City's original budget.

The Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds – Primary Government does not reflect the amounts included in the City's budget for the Rock Rapids Municipal Utilities. Please see the Rock Rapids Municipal Utilities audit report for information concerning budget to actual figures for the Municipal Utilities.

During the year ended June 30, 2019, disbursements did not exceed the amount budgeted for any function.

**Schedule of the City's Proportionate Share of the Net Pension Liability  
Iowa Public Employees' Retirement System  
Last Five Fiscal Years\***

	2019	2018	2017	2016	2015
City's Proportion of the Net Pension Liability	0.008017%	0.0078947%	0.0078600%	0.0077365%	0.0074833%
City's Proportionate Share of the Net Pension Liability	\$ 507,164	525,889	494,652	382,223	296,780
City's Covered Payroll	\$ 679,513	651,392	627,176	617,106	622,865
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	74.64%	80.73%	78.87%	61.94%	47.65%
IPERS' Net Position as a Percentage of the Total Pension Liability	83.62%	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.

CITY OF ROCK RAPIDS  
Other Information

**Schedule of City Contributions**  
**Iowa Public Employees' Retirement System**  
For the Last Ten Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Statutorily Required Contribution	\$ 57,878	53,790	52,625	50,371	49,558	51,317	48,349	42,964	32,253	29,743	27,079
Contributions in Relation to the Statutorily Required Contribution	(57,878)	(53,790)	(52,625)	(50,371)	(49,558)	(51,317)	(48,349)	(42,964)	(32,253)	(29,743)	(27,079)
Contribution Deficiency (Excess)	\$ 0	0	0	0	0	0	0	0	0	0	0
City Covered Employee Payroll	\$710,889	679,513	651,392	627,176	617,106	622,865	616,253	598,823	510,457	491,409	491,542
Contributions as a Percentage of Covered Employee Payroll	8.14%	7.92%	8.08%	8.03%	8.03%	8.24%	7.85%	7.17%	6.32%	6.05%	5.51%

See Accompanying Independent Auditor's Report.

**Notes to Other Information – Pension Liability**  
Year Ended June 30, 2019

***Changes of Benefit Terms:***

Legislation enacted in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% 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 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

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 3.5% per year.
- Decreased the discount rate from 7.5% 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, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

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

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

# Supplementary Information

City of Rock Rapids

**CITY OF ROCK RAPIDS**  
Supplementary Information

**Schedule 1 – Schedule of Cash Receipts, Disbursements, and Changes in  
Cash Balances Nonmajor Governmental Funds – Primary Government**  
As of and For the Year Ended June 30, 2019

	Special Revenue				Permanent		Total
	Employee Benefits	Local Option Sales Tax	Urban Renewal Tax Increment	Revolving Loan Fund	Library Endowment	Cemetery Perpetual Care	
<b>Receipts:</b>							
Property Tax	\$ 172,508	0	0	0	0	0	172,508
Tax Increment Financing	0	0	237,725	0	0	0	237,725
Other City Tax	336	279,077	0	0	0	0	279,413
Use of Money and Property	0	0	0	5,560	0	0	5,560
Intergovernmental	12,779	0	21,361	0	0	0	34,140
Miscellaneous	0	0	0	27,659	0	1,158	28,817
<b>Total Receipts</b>	<b>185,623</b>	<b>279,077</b>	<b>259,086</b>	<b>33,219</b>	<b>0</b>	<b>1,158</b>	<b>758,163</b>
<b>Disbursements:</b>							
<b>Operating:</b>							
Public Safety	3,705	0	0	0	0	0	3,705
Public Works	60,003	0	0	0	0	0	60,003
Culture and Recreation	63,710	0	0	0	0	0	63,710
Community and Economic Development	44,849	0	172,131	92,000	0	0	308,980
General Government	36,323	0	0	0	0	0	36,323
<b>Total Disbursements</b>	<b>208,590</b>	<b>0</b>	<b>172,131</b>	<b>92,000</b>	<b>0</b>	<b>0</b>	<b>472,721</b>
Excess (Deficiency) of Receipts Over (Under) Disbursements	(22,967)	279,077	86,955	(58,781)	0	1,158	285,442
<b>Other Financing Uses:</b>							
Operating Transfers In	660	0	0	0	0	0	660
Operating Transfers Out	0	(280,000)	(72,384)	0	0	0	(352,384)
<b>Net Change in Cash Balances</b>	<b>(22,307)</b>	<b>(923)</b>	<b>14,571</b>	<b>(58,781)</b>	<b>0</b>	<b>1,158</b>	<b>(66,282)</b>
Cash Balances Beginning of Year	219,839	3,088	30,869	221,965	2,000	105,985	583,746
Cash Balances End of Year	\$ 197,532	2,165	45,440	163,184	2,000	107,143	517,464
<b>Cash Basis Fund Balances</b>							
<b>Nonspendable: Library Endowment &amp; Cemetery Perpetual Care</b>							
	\$ 0	0	0	0	2,000	107,143	109,143
<b>Restricted for: Other Purposes</b>	<b>197,532</b>	<b>2,165</b>	<b>45,440</b>	<b>163,184</b>	<b>0</b>	<b>0</b>	<b>408,321</b>
	<b>\$ 197,532</b>	<b>2,165</b>	<b>45,440</b>	<b>163,184</b>	<b>2,000</b>	<b>107,143</b>	<b>517,464</b>

See Accompanying Independent Auditor's Report.

CITY OF ROCK RAPIDS  
Supplementary Information

**Schedule 2 – Statement of Indebtedness – Primary Government**  
Year Ended June 30, 2019

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Capital Loan Notes:									
Street Improvements	April 30, 2012	2.0%-2.35%	600,000	\$ 600,000	0	0	600,000	13,100	0
Refunding 2013B	April 30, 2012	0.8%-1.80%	1,460,000	465,000	0	255,000	210,000	7,860	0
GO Capital Loan Series 2016	May 25, 2016	2.0%-3.0%	3,300,000	2,915,000	0	195,000	2,720,000	69,700	0
Community Disaster Loan	June 23, 2016	1.75%	513,200	513,220	0	513,220	0	0	0
Total				\$ 4,493,220	0	963,220	3,530,000	90,660	0

See Accompanying Independent Auditor's Report.

CITY OF ROCK RAPIDS  
Supplementary Information

**Schedule 3 – Note Maturities - Primary Government**  
Year Ended June 30, 2019

Year Ending June 30,	General Obligation Notes						<b>Totals</b>
	<b>Refunding 2013</b>		<b>Street Improvements</b>		<b>Capital Projects/Refunding</b>		
	Issued April 30, 2012		Issued April 30, 2012		Issued May 25, 2016		
	Interest Rates	Amounts	Interest Rates	Amounts	Interest Rates	Amounts	
2020	1.80%	\$ 210,000	-	\$ 0	2.00%	\$ 200,000	\$ 410,000
2021	-	0	2.00%	200,000	2.00%	205,000	405,000
2022	-	0	2.20%	200,000	2.00%	210,000	410,000
2023	-	0	2.35%	200,000	2.50%	210,000	410,000
2024	-	0	-	0	2.50%	215,000	215,000
2025	-	0	-	0	2.50%	220,000	220,000
2026	-	0	-	0	2.50%	230,000	230,000
2027	-	0	-	0	2.50%	235,000	235,000
2028	-	0	-	0	2.50%	240,000	240,000
2029	-	0	-	0	2.50%	245,000	245,000
2030	-	0	-	0	2.75%	250,000	250,000
2031	-	0	-	0	3.00%	260,000	260,000
		\$ 210,000		\$ 600,000		\$ 2,720,000	\$ 3,530,000

See Accompanying Independent Auditor's Report.

CITY OF ROCK RAPIDS  
Supplementary Information

**Schedule 4 – Source of Receipts by:  
Source and Disbursements by Function – All Governmental Funds  
Primary Government  
For the Last Ten Years**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>Receipts:</b>										
Property Tax	\$ 1,388,247	\$ 1,359,375	1,322,817	1,351,588	1,341,975	1,326,905	1,311,656	1,309,787	1,320,420	1,148,455
Tax Increment Financing	237,725	187,289	183,523	166,572	221,818	202,783	177,727	175,765	177,782	124,264
Other City Tax	281,907	264,221	315,367	275,899	261,683	231,474	247,931	289,763	187,085	181,385
Licenses and Permits	12,001	18,091	11,924	13,426	15,747	9,916	11,522	9,289	8,594	7,354
Use of Money and Property	95,209	63,949	54,998	43,722	51,077	52,119	54,016	57,214	50,243	67,890
Intergovernmental	1,401,712	1,172,320	3,338,644	1,905,502	996,993	711,805	490,061	403,588	546,418	518,490
Charges for Service	337,511	349,787	346,653	349,834	376,886	379,775	379,372	370,245	329,933	300,259
Special Assessments	17,911	18,298	23,753	36,285	34,078	42,188	53,711	62,424	118,360	361,821
Miscellaneous	223,589	253,665	367,992	164,241	125,928	219,411	299,555	340,810	228,918	184,592
<b>Total Receipts</b>	<b>\$ 3,995,812</b>	<b>3,686,995</b>	<b>5,965,671</b>	<b>4,307,069</b>	<b>3,426,185</b>	<b>3,176,376</b>	<b>3,025,551</b>	<b>3,018,885</b>	<b>2,967,753</b>	<b>2,894,510</b>
<b>Disbursements:</b>										
<b>Operating:</b>										
Public Safety	\$ 389,791	\$ 389,181	389,523	345,491	323,681	251,674	295,308	306,675	329,798	275,426
Public Works	655,335	622,186	1,021,080	865,811	1,140,202	643,949	644,923	638,716	665,723	885,920
Health and Social Services	11,365	11,365	11,035	10,712	10,400	35	914	1,603	0	0
Culture and Recreation	586,052	588,046	570,691	630,412	482,165	630,157	588,182	543,510	507,794	592,245
Community and Economic Development	574,947	426,175	646,657	1,019,735	583,699	442,612	466,778	404,324	372,628	290,526
General Government	219,690	238,932	225,323	239,203	203,296	183,048	202,078	188,599	192,748	214,121
Debt Service	543,160	550,630	548,970	477,123	451,330	513,743	587,801	618,485	563,290	946,888
Capital Projects	1,545,713	783,517	2,095,227	2,388,491	333,120	188,463	380,369	482,214	690,595	1,107,806
<b>Total Disbursements</b>	<b>\$ 4,526,053</b>	<b>3,610,032</b>	<b>5,508,506</b>	<b>5,976,978</b>	<b>3,527,893</b>	<b>3,166,353</b>	<b>3,184,126</b>	<b>3,322,576</b>	<b>4,312,932</b>	<b>4,703,426</b>

See Accompanying Independent Auditor's Report.

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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  
Statement Performed in Accordance with  
*Government Auditing Standards*  
City of Rock Rapids



# De Noble, Austin & Company PC

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 the *Government Auditing Standards* issued by the Comptroller General of the United States, the primary government financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Rock Rapids, Iowa, as of and for the fiscal year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the City's basic primary government financial statements, and have issued our report thereon dated February 24, 2020. Our report expressed unmodified opinions on the primary government financial statements which were prepared on the basis of cash receipts and disbursement, a basis of accounting other than U.S. generally accepted accounting principles. However, the financial statements referred to above include only the primary government of the City of Rock Rapids, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles prepared on the basis of accounting described in Note 1 require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2019, and the changes in cash basis financial position for the fiscal year then ended in conformity with the basis of accounting described in Note 1.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the primary government financial statements, we considered the City of Rock Rapids' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the primary government financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Rock Rapids' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Rock Rapids' 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 significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, 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's 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 and Questioned Costs as item 19-A, D and E to be material weaknesses.

### **MEMBERS**

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 Part II of the accompanying Schedule of Findings and Questioned Costs as item 19-B and C to be significant deficiencies.

### **Compliance and Other Matters**

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

Comments involving statutory and other legal matters about the City's operations for the fiscal year ended June 30, 2018 are based exclusively on knowledge obtained from procedures performed during our audit of the primary government 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 Rock Rapids' Responses to Findings**

The City of Rock Rapids' responses to the findings identified in our audit are described in the accompanying Schedule of Finding and Questioned Costs. The City of Rock Rapids' responses were not subjected to the auditing procedures applied in the audit of the primary government 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 or 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 Rock Rapids 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.

*De Noble, Austin & Company PC*

**De Noble, Austin & Company PC**  
Certified Public Accountants

February 24, 2020

# CITY OF ROCK RAPIDS

## Schedule of Findings and Questioned Costs

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### Schedule of Findings

Year Ended June 30, 2019

#### Findings Related to the Financial Statements:

#### INTERNAL CONTROL DEFICIENCIES:

##### I-19-A Segregation of Duties

**Criteria** – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements.

**Condition** – The City has two employees who are involved in the financial accounting procedures of the City. Generally, one or both of these individuals may have control over areas which no compensating controls exist, including performing all record-keeping and reconciling functions for the office, including cash receipts collection, making bank deposits, check preparation and signing, recording of journal entries, payroll processing, and posting of cash receipts and cash disbursements in the accounting system.

**Cause** – The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

**Effect** – Inadequate segregation of duties could adversely affect the City’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

**Recommendation** – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. An independent person could be used to regularly check paychecks for accuracy, verify vacation and sick leave, examine employee expense reimbursements, periodically examine investments, review invoices, and review the financial records.

**Response** – We will continue to investigate the options we have within economic constraints in order to segregate duties to the extent possible with existing personnel of the City and the Municipal Utilities.

**Conclusion** – Response accepted. It is important that you continue to attempt to implement these recommendations.

##### I-19-B Records of Accounts

**Criteria** – Chapter 384.20 of the Code of Iowa states in part that “a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.”

**Condition** – The Library Board maintains the accounting records pertaining to the operations of the Library. These transactions are not recorded in complete detail in the Clerk’s records (only the totals for the fiscal year are entered in the Clerk’s records).

**Cause** – The Library Board maintains the accounting records pertaining to the operations of the Library.

**Effect** – The financial activity of the City’s operations as a whole is not accumulated within one financial database.

**Recommendation** – For better accountability, financial and budgetary control, all financial activity of all City accounts should be recorded in the Clerk’s records.

**Response** – The financial activity and balances of the Library are subjected to annual audit and are handled by responsible individuals. No irregularities and only minor errors have ever been detected. If the Library Board has an individual who is willing and able to provide her services for no additional remuneration, the City Clerk will continue to review the Library Board’s reports that are provided on a monthly basis as a form of control and enter the fiscal year totals in the Clerk’s records.

**Conclusion** – Response acknowledged. The City of Rock Rapids is aware of our recommendation.

### **I-19-C Insurance Policy**

**Criteria** – “Hangerkeepers coverage” is a separate insurance policy that covers an aircraft that is being serviced or repaired by the airport’s lessee, as this is not covered by the general liability policy.

**Condition** –The City has received a recommendation from its insurance provider to require “hangarkeepers coverage” in the airport’s fixed base operator lease. At present time, there is no such coverage maintained by the lessee.

**Cause** –Due to the high cost of such policies, the City has been working with its insurance carrier to assess the potential liability before requiring the coverage.

**Effect** – Lack of “hangarkeepers coverage” could expose the City to significant liability in the event of a disaster or damage to an aircraft not covered by the general liability policy.

**Recommendation** – The City should review the lease and be sure that it is current and complied with. They should consider the need to require an adequate amount of “hangarkeepers coverage” in its airport operator lease.

**Response** – The City is working with the insurance carrier and the airport commission to be sure the issue is addressed.

**Conclusion** – Response accepted. Please make sure your City Attorney and insurance agent are in agreement that the City has adequate coverage based on the risk the City is willing to accept.

### **I-19-D Payroll Procedures**

**Criteria** – Properly designed and implemented policies and procedures pertaining to payroll functions assist in providing reasonable assurance payroll information is complete and accurate. A deficiency in internal control over financial reporting exists when the policies and procedures set forth in the employee handbook are not being properly executed and enforced without written approval in the Board minutes.

**Condition** – We noted that a couple hourly library employees’ wages were not approved in the minutes; several employees are not signing their timesheets in order to attest to the accuracy of the hours and days worked; and an instance of a missing signed timecard for a pool employee was discovered.

**Cause** – The City does not have a policy to require each employee to prepare a completed time sheet, which must be signed off by the employee and the employee’s supervisor, in order for the employee’s payroll to be

processed. The lack of procedures in regards to payroll rates being compared to the rates approved by the governing board.

**Effect** – A lack of policies and procedures resulted in a pool employee receiving pay without proof of hours worked, 2 library employees receiving a rate of pay without written approval in the Library Board minutes which increased the probability of other payroll errors or fraudulent behaviors going undetected. The decision to not require policies in place to be followed adversely effects the entire control environment.

**Recommendation** – Timesheets should be prepared and signed to attest to the accuracy of each timesheet. Formal proof of the review and approval of a timesheet should be established by having the person sign or initial each timesheet and those timesheets being kept in the proper place. Procedures need to be established to ensure employees are paid rates which agree with the pay rates approved by the Library Board.

**Response** – The City will evaluate its payroll procedures in an effort to implement the issues identified.

**Conclusion** – Response accepted.

### **I-19-E Revenue Collection Procedures**

**Criteria** – Properly designed and implemented policies and procedures regarding lease agreements and monthly invoicing for services at the airport must be implemented. Lease agreements must be signed by both parties to be legally enforceable and should be signed before the effective date of the lease. The City must also prepare all monthly invoices for charges of services at the airport. Airport services include but are not limited to hanger rental and fuel used.

**Condition** – The City Council had approved lease agreements with two tenants in January 2019, but the City did not have signed lease agreements with those tenants by the end of the fiscal year (six months after the lease agreement began). It was also noted during the audit, that an invoice for one month of airport rental and fuel sales was not prepared. Subsequently, no revenue was collected for those services for that month during the fiscal year.

**Cause** – The City does not have a policy or procedure in place for handling of signed lease agreements to ensure that they are signed and implemented before the beginning of a new lease period. The City does not have proper procedures implemented to determine that all invoicing for airport services is done and all revenue is received in a timely manner.

**Effect** – As a result, tenants might not pay the amount agreed upon in the lease due to no legal responsibility to do so, resulting in less revenue. Revenue for the full amount of services at the airport will also be effected by not properly invoicing for the airport rental and fuel sales.

**Recommendation** – The City should adopt procedures to ensure that lease agreements are formalized upon approval by the Council and both parties sign the agreements before the effective date of the lease. The City should implement procedures to ensure that all invoices for services are prepared and all revenue is collected in a timely manner for rental and fuel sales at the airport.

**Response** - We will implement your recommendation.

**Conclusion** - Response accepted

### **INSTANCES OF NON-COMPLIANCE**

No matters were noted.

**Other Findings Related to Required Statutory Reporting:**

**II-19-A Certified Budget** – Disbursements during the year ended June 30, 2019, did not exceed the amount budgeted for any function.

**II-19-B Travel Expense** – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

**II-19-C Business Transactions** – Business transactions between the City and City officials or employees are detailed as follows:

Name, Business Connection, and Title	Transaction Description	Amount
Rock Rapids Machine and Welding Ed Reck, Council Member, Owner	Services and materials; Pool equipment	\$ 7,303

In accordance with Chapter 331.342(10) of the Code of Iowa, the transactions with Rock Rapids Machine and Welding appears to represent a conflict of interest since total transactions were more than \$1,500 during the fiscal year and were not entered into through competitive bidding.

**Recommendation** – The City should implement procedures to review business transactions between the City and City officials, employees, and their family members to ensure the City is in compliance with the Iowa Code.

**Response** – We will review related party business transactions and be sure to bid jobs with related parties when total payments are expected to exceed \$1,500.

**Conclusion** – Response accepted.

**II-19-D 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 that the coverage is adequate for current operations.

**II-19-E City Council/Library Board Minutes** – No transactions were found that we believe should have been approved in the City Council minutes but were not. However, we noted that the Library Board minutes were not properly signed and authenticated during the year in accordance with Iowa Code Chapter 380.7.

**Recommendation** – The City should implement procedures to ensure all minutes are properly signed and authenticated.

**Response** - We will implement your recommendation.

**Conclusion** - Response accepted.

**II-19-F 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 written investment policy were noted.

**II-19-G Annual Urban Renewal Report** – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

# CITY OF ROCK RAPIDS

Staff

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## **This Audit was Performed By:**

Carmen Austin, CPA, Senior Auditor  
Kayla Reck, Assistant Auditor  
Russell Forest, CPA, Assistant Auditor

**De Noble, Austin & Company PC**  
Certified Public Accountants