

**CITY OF ROCK RAPIDS**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2004**

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## City of Rock Rapids

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2004)</b>		
Lawrence Lupkes	Mayor	January 1, 2004
Jodi Waterman	Council Member	January 1, 2004
Robert Top	Council Member	January 1, 2004
Kenneth Mellema	Council Member	January 1, 2004
Donald DeYong	Council Member	January 1, 2006
Rhonda Menning	Council Member	January 1, 2006
Jordan Kordahl	City Administrator, Clerk and Treasurer	Indefinite
Laura Herman	Deputy City Clerk	Indefinite
Linda McCormack	Librarian	Indefinite
Michael R. Austin	City Attorney	Indefinite
Trish Starrett	Library Trustee	July 1, 2005
Nancy DeJongh	Library Trustee	July 1, 2005
James Roeman	Library Trustee	July 1, 2007
Ann Reckert	Library Trustee	July 1, 2007
Julie Metzger	Library Trustee	July 1, 2009
Rhoda Lange	Library Trustee	July 1, 2009
Mike Roetman	Library Trustee	July 1, 2009
Mike Cleveringa	Airport Commissioner	June 1, 2005
John Stillson	Airport Commissioner	June 1, 2007
Arnold Kwikkel	Airport Commissioner	June 1, 2009

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Starting January 2004)</b>		
Lawrence Lupkes	Mayor	January 1, 2006
Donald DeYong	Council Member	January 1, 2006
Rhonda Menning	Council Member	January 1, 2006
Marlene Bowers	Council Member	January 1, 2008
Gary Broesder	Council Member	January 1, 2008
Doug Herda	Council Member	January 1, 2008
Jordan Kordahl	City Administrator, Clerk and Treasurer	Indefinite
Laura Herman	Deputy City Clerk	Indefinite
Linda McCormack	Librarian	Indefinite
Michael R. Austin	City Attorney	Indefinite
Trish Starrett	Library Trustee	July 1, 2005
Nancy DeJongh	Library Trustee	July 1, 2005
James Roeman	Library Trustee	July 1, 2007
Ann Reckert	Library Trustee	July 1, 2007
Julie Metzger	Library Trustee	July 1, 2009
Rhoda Lange	Library Trustee	July 1, 2009
Mike Roetman	Library Trustee	July 1, 2009
Mike Cleveringa	Airport Commissioner	June 1, 2005
John Stillson	Airport Commissioner	June 1, 2007
Arnold Kwikkel	Airport Commissioner	June 1, 2009

## **Independent Auditor's Report**

To the Honorable Mayor, Members of the  
City Council and Officials of the City of Rock Rapids:

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, 2004, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Rock Rapids' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

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, 2004, and the changes in cash basis financial position for the year then ended in conformity 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, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 14, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basis Financial Statements – and Management's Discussion and

Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2004 on our consideration of the City of Rock Rapids’ internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management’s Discussion and Analysis and budgetary comparison information for the primary government on pages 5 through 10 and 26 through 28 are not required parts of the basic primary government financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed 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 second paragraph of this report, the financial statements for the three fiscal years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those primary government financial statements. Other 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. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned basic primary government financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the aforementioned primary government financial statements taken as a whole.

Siebrecht Spitler & De Noble PC  
Certified Public Accountants

September 17, 2004

## **MANAGEMENT'S DISCUSSION AND 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, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

### **2004 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental funds increased approximately \$385,500 or 18% from fiscal year 2003 to fiscal year 2004. There was an increase in property tax and tax increment financing collections and the City received a community attraction and tourism grant for the Central Lyon community center.
- Disbursements decreased approximately \$837,300 or 26% in fiscal year 2004 from fiscal year 2003. There was a decrease in disbursements due primarily to a smaller amount of debt service payments (no refinancing of debt done this fiscal year), a reduction in street capital projects and last year the City made a special one time donation to the Utilities.
- The City's cash basis net assets from governmental activities increased approximately \$186,200 or 15% from fiscal year 2003 to fiscal year 2004.

### **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 Statement of Activities and Net Assets – Primary Government. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances for its primary government activities.

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

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

Required Supplementary Information further explains and supports the primary government financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

## **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 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, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

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

### *Government-Wide Financial Statement*

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

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

The Statement of Activities and Net Assets – Primary Government consists only of governmental activities. Business type activities, consisting of electric, water, wastewater, gas and communications, are conducted by the Rock Rapids Municipal Utilities and reported separately. 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, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, state shared revenues and grants, local option sales taxes, and charges for services 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 and 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, Library Memorial Trust, Employee Benefits, Local Option Sales Tax, Urban Renewal Tax Increment and Library Building 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 fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. Over the past year, the City's cash balance for governmental activities increased from \$1,264,256 to \$1,450,514. The analysis that follows focuses on the changes in cash balances for governmental activities.

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### Changes in Cash Basis of Net Assets of Governmental Activities

	<u>Year Ended June 30, 2004</u>
Receipts:	
Program Receipts:	
Charges for Service	\$ 337,125
Operating Grants, Contributions and Restricted Interest	647,465
Capital Grants, Contributions and Restricted Interest	125,300
General Receipts:	
Property Tax	1,188,762
Tax Increment Financing	59,727
Local Option Sales Tax	136,968
Grants and Contributions not Restricted to Specific Purpose	87,201
Unrestricted Interest on Investments	7,610
Other General Receipts	13,029
Total Receipts	<u>2,603,187</u>
 Disbursements:	
Public Safety	242,243
Public Works	601,982
Culture and Recreation	384,414
Community and Economic Development	370,103
General Government	206,552
Debt Service	515,759
Capital Projects	95,876
Total Disbursements	<u>2,416,929</u>
 Increase in Cash Basis Net Assets	 186,258
 Cash Basis Net Assets Beginning of Year	 <u>1,264,256</u>
 Cash Basis Net Assets End of Year	 <u><u>\$ 1,450,514</u></u>

The cost of all governmental activities this year was \$2,416,929. However, as shown in the Statement of Activities and Net Assets – Primary Government, the amount taxpayers ultimately financed for these activities was \$1,307,039 because some of the cost was paid by those who directly benefited from the activities (\$337,125) and by other governments and organizations that subsidized certain activities with grants, contributions and restricted interest earnings (\$772,765).

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Rock Rapids completed the year, its governmental funds reported a combined cash balance of \$1,450,514, an increase of \$186,258 above last year's total of \$1,264,256. The following are the major reasons for the changes in fund balances of the major funds from the beginning of the year.

- The General Fund cash balance increased \$82,758 from the prior year to \$516,294. This was due partly to the following: a contribution of \$27,565 from the Clazena Voogd estate for the Forster Community Center; an increase in property tax revenues in the amount of \$28,606 when compared to last year; and the receipt of \$65,583 in township property taxes in conjunction with newly formed 28-E agreements for fire protection. These increases helped to offset the \$38,902 decrease in personal property tax replacement when compared to last year.
- The Road Use Tax Fund cash balance increased \$38,439 from the prior year to \$211,107. The increase is similar to the increase in the cash balance during fiscal year ended June 30, 2003. The Road Use Tax Fund relies largely on the amount of road use tax allocation proceeds received from the State of Iowa.
- The Library Memorial Trust Fund cash balance increased \$10,394 from the prior year to \$261,973. The increase is primarily due to interest on investments and donations from private sources.
- The Debt Service Fund cash balance increased by \$68,096 to \$101,308 during the fiscal year. This was due to an excess of tax revenues over actual expenditures for the purpose of building up cash reserves.
- The Capital Projects Fund cash balance decreased by \$85,437 to \$232,554 during the fiscal year. This was a result of spending reserves that were built up for street and drainage projects.

## **BUDGETARY HIGHLIGHTS**

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 any blended component units (which there are none), Internal Service Funds (which there are none) and Fiduciary Funds (which there are none). 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. The City's certified budget is prepared on the cash basis.

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.

The City amended its budget once during the year, on May 25, 2004, resulting in an increase of \$435,000 in budgeted operating disbursements. Reasons for this amendment were identified as follows: (1) Construction of Central Lyon community center funded by state (community attraction and tourism grant); (2) Change in allocation between functions for payroll taxes and benefits; (3) Library projects funded by donations for specified purposes.

**DEBT ADMINISTRATION**

At June 30, 2004, the City had \$2,885,727 in general obligation debt and other long-term debt outstanding compared to \$3,344,753 in debt outstanding last year, as shown below:

<u>Outstanding Debt at Year-End</u>		
<u>TYPE OF DEBT</u>	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
General Obligation Notes and Bonds	\$ 1,950,000	\$ 2,250,000
Local Option Sales & Service Tax Revenue Bonds	375,000	423,000
Grant Anticipation Notes	475,000	510,000
Loan from Utilities	0	50,000
Rescue Truck Lease	<u>85,727</u>	<u>111,625</u>
Total Long Term Debt	<u>\$ 2,885,727</u>	<u>\$ 3,344,753</u>

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 \$2,410,727 is adequately below its constitutional debt limit of approximately \$4,365,000. More detailed information about the City’s long-term liabilities is available in Note 3 to the financial statements.

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

The elected and appointed officials and citizens of the City of Rock Rapids considered many factors when setting the fiscal year 2005 budget, tax rates and fees that will be charged for various City activities. Among these factors are the decreasing rollback factor and decreasing intergovernmental revenues.

Under the rollback factor, residential property was taxed at 51.4% of actual value for the 2004 fiscal year and decreases by 2.9%, to 48.5%, for the 2005 fiscal year. As a result, regular taxable valuation decreases by approximately \$2.1 million, or about 4%, while actual valuation increases by more than \$2 million for 2005. Another consequence of the rollback factor is the disproportionate share of taxes levied on commercial and industrial property.

In 2003, after the 2004 city budgets and tax levies had been set, Iowa cities received notice that the personal property tax replacement was being eliminated for all subsequent years, beginning with the 2004 fiscal year. At current rates, this amounts to an annual decrease of \$38,900 in state revenues.

These indicators were taken into account when adopting the budget for fiscal year 2005. In recent years, the City has worked to control tax rates by implementing certain structural changes and greater reliance on alternate sources of revenue. This has allowed the City to plan for a balanced budget in 2005 without a projected increase in tax revenues, while also maintaining an adequate cash reserve.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the City of Rock Rapids' citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jordan Kordahl, City Administrator, 310 South 3<sup>rd</sup> Avenue, Rock Rapids, Iowa 51246.

**City of Rock Rapids**  
**Basic Primary Government Financial Statements**

City of Rock Rapids

Statement of Activities and Net Assets – Cash Basis  
Primary Government

As of and for the Year Ended June 30, 2004

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets	
		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	\$ 242,243	8,190	65,583	0	(	168,470)
Public Works	601,982	174,512	214,299	50,000	(	163,171)
Culture and Recreation	384,414	90,754	80,876	0	(	212,784)
Community and Economic Development	370,103	3,078	282,409	0	(	84,616)
General Government	206,552	35,332	4,242	0	(	166,978)
Debt Service	515,759	25,120	56	65,000	(	425,583)
Capital Projects	95,876	139	0	10,300	(	85,437)
Total Governmental Activities	\$ 2,416,929	337,125	647,465	125,300	(	1,307,039)

**General Receipts:**

Property Tax Levied for:	
General Purposes	613,666
Employee Benefits	141,417
Tax Increment Financing	59,727
Debt Service	433,679
Local Option Sales Tax	136,968
Grants and Contributions not Restricted to Specific Purpose	87,201
Unrestricted Interest on Investments	7,610
Rents	5,559
Library Endowment Donation	2,000

Perpetual Cemetery Care – Sale of Lots	1,500
Miscellaneous	3,970
	<hr/>
Total General Receipts	1,493,297
	<hr/>
Change in Cash Basis Net Assets	186,258
Cash Basis Net Assets Beginning of Year	1,264,256
	<hr/>
Cash Basis Net Assets End of Year	\$ 1,450,514
	<hr/> <hr/>
<b>Cash Basis Net Assets</b>	
Restricted:	
Streets	\$ 211,107
Library	297,030
Capital Projects	232,554
Debt Service	101,308
Other Purposes	92,221
Unrestricted	516,294
	<hr/>
<b>Total Cash Basis Net Assets</b>	<b>\$ 1,450,514</b>
	<hr/> <hr/>

See Notes to Financial Statements.

City of Rock Rapids

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

As of and for the Year Ended June 30, 2004

	General	Special Revenue		Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total
		Road Use Tax	Library Memorial Trust				
Receipts:							
Property Tax	\$ 613,666	0	0	433,679	0	141,417	1,188,762
Tax Increment Financing Collections	0	0	0	0	0	59,727	59,727
Other City Tax	0	0	0	0	0	136,968	136,968
Licenses and Permits	7,618	0	0	0	0	0	7,618
Use of Money and Property	39,312	2,950	9,831	56	100	312	52,561
Intergovernmental	508,006	214,299	0	0	0	0	722,305
Charges for Service	224,826	0	0	0	0	0	224,826
Special Assessments	0	0	0	25,120	0	0	25,120
Miscellaneous	90,681	611	15,169	65,000	10,339	3,500	185,300
Total Receipts	1,484,109	217,860	25,000	523,855	10,439	341,924	2,603,187
Disbursements:							
Operating:							
Public Safety	213,345	0	0	0	0	28,898	242,243
Public Works	388,734	179,421	0	0	0	33,827	601,982
Culture and Recreation	354,089	0	14,606	0	0	15,719	384,414
Community and Economic Development	304,082	0	0	0	0	66,021	370,103
General Government	186,101	0	0	0	0	20,451	206,552
Debt Service	0	0	0	515,759	0	0	515,759
Capital Projects	0	0	0	0	95,876	0	95,876
Total Disbursements:	1,446,351	179,421	14,606	515,759	95,876	164,916	2,416,929

Excess (Deficiency) of Receipts Over (Under) Disbursements	37,758	38,439	10,394	8,096	( 85,437)	177,008	186,258
Other Financing Sources (Uses)							
Operating Transfers In	45,000	0	0	75,000	0	0	120,000
Operating Transfers Out	0	0	0	( 15,000)	0	( 105,000)	( 120,000)
Total Other Financing Sources (Uses)	45,000	0	0	60,000	0	( 105,000)	0
Net Change in Cash Balances	82,758	38,439	10,394	68,096	( 85,437)	72,008	186,258
Cash Balances Beginning of Year	433,536	172,668	251,579	33,212	317,991	55,270	1,264,256
Cash Balances End of Year	\$ 516,294	211,107	261,973	101,308	232,554	127,278	1,450,514

**Cash Basis Fund Balances**

Reserved:							
Debt Service	\$ 0	0	0	101,308	0	0	101,308
Unreserved:							
General Fund	516,294	0	0	0	0	0	516,294
Special Revenue Funds	0	211,107	261,973	0	0	108,918	581,998
Capital Projects Fund	0	0	0	0	232,554	0	232,554
Permanent Funds	0	0	0	0	0	18,360	18,360
Total Cash Basis Fund Balances	\$ 516,294	211,107	261,973	101,308	232,554	127,278	1,450,514

See Notes to Financial Statements.

**City of Rock Rapids**  
**Notes to Financial Statements**

# City of Rock Rapids

## Notes to Financial Statements

June 30, 2004

### (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, culture and recreation, community and economic development, and general government services.

#### A. Reporting Entity

For financial reporting purposes, the City of Rock Rapids 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 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, 2004, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Component Units – If it was not for the City of Rock Rapids only preparing financial statements of the primary government, 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 Assets – 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 Community Affairs Corporation.

The City of Rock Rapids received \$90,603 from the Rock Rapids Municipal Utilities during the fiscal year ended June 30, 2004 (\$85,323 in contributions and \$5,280 for sanitary sewer fees). The Rock Rapids Municipal Utilities also made a \$45,000 loan to the Rock Rapids Development Corporation for economic development that flowed through the City of Rock Rapids and the Utilities donated a Chevrolet pickup to the City during the fiscal year. The Rock Rapids Municipal Housing Agency paid the City of Rock Rapids \$10,564 for payment in lieu of taxes during the fiscal year ended June 30, 2004.

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, and the Hazardous Material Response Commission (HAZMAT). During the fiscal year ended June 30, 2004, the City did not contribute any money to the Assessor, E911, Emergency Management, the Economic Development Consortium and HAZMAT. Please see Note 9 for the amount paid to the Northwest Iowa Area Solid Waste Agency.

## B. Basis of Presentation

Government-Wide Financial Statements - The Statement of Activities and Net Assets – 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 Statement of Activities and Net Assets – Primary Government presents the City's primary government nonfiduciary net assets. Net assets are reported in two categories:

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

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

The Statement of Activities and Net Assets – 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 Statements – Separate financial statements are provided for the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account 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 the payment of interest and principal on the City's general obligation, local option sales and service tax and grant anticipation long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities for the City.

#### C. Measurement Focus and Basis of Accounting

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

#### D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the final amended budget for any function for the City of Rock Rapids. However, the amended budget contained errors in amounts in the "total budget as certified or last amended" column and the "current amendment" column for the following functions: public safety, health and social services, general government and debt service. While the total government activities expenditures were correct, the aforementioned function amounts were allocated improperly compared to the original budget and consequently, the current amendment amount for each of these functions. Also, disbursements exceeded the amount budgeted in the community and economic development function before the budget was amended.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments at June 30, 2004 are as follows:

<u>Fund Investments Held In</u>	Carrying	Fair
Type of Investment	Amount	Value
<u>Library Memorial Trust Fund</u>		
U.S. Government E Bonds	\$9,482	\$17,338

**(3) Notes, Bonds and Capital Lease Payable**

Annual debt service/loan/lease payment requirements to maturity for general obligation capital loan notes, the general obligation bonds, the grant anticipation capital loan notes, local option sales & service tax revenue bonds and the capital lease (for a rescue vehicle for the fire department) are as follows:

Year Ended June 30	General Obligation Capital Loan Notes		General Obligation Bonds		Grant Anticipation Capital Loan Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 215,000	52,977	60,000	25,280	35,000	25,262
2006	220,000	45,578	65,000	22,280	40,000	23,512
2007	220,000	37,658	65,000	18,998	40,000	21,492
2008	155,000	29,310	70,000	15,683	45,000	19,453
2009	125,000	23,810	75,000	12,078	45,000	17,113
2010	130,000	19,585	75,000	8,178	50,000	14,727
2011	135,000	14,972	80,000	4,240	50,000	12,053
2012	145,000	9,953	0	0	55,000	9,353
2013	115,000	4,312	0	0	55,000	6,355
2014	0	0	0	0	60,000	3,330
Total	\$1,460,000	238,155	490,000	106,737	475,000	152,650

Year Ended June 30	Local Option Sales & Service Tax Revenue Bonds		Capital Lease		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2005	48,000	12,785	27,193	4,286	385,193
2006	48,000	11,705	28,553	2,927	401,553	106,002
2007	53,000	10,618	29,981	1,499	407,981	90,265
2008	53,000	9,267	0	0	323,000	73,713
2009	58,000	7,897	0	0	303,000	60,898
2010	25,000	6,243	0	0	280,000	48,733
2011	30,000	4,905	0	0	295,000	36,170
2012	30,000	3,285	0	0	230,000	22,591
2013	30,000	1,650	0	0	200,000	12,317
2014	0	0	0	0	60,000	3,330
<b>Total</b>	<b>375,000</b>	<b>68,355</b>	<b>85,727</b>	<b>8,712</b>	<b>2,885,727</b>	<b>574,609</b>

The grant anticipation capital loan notes are to be repaid from an annual contribution in a minimum amount of \$65,000 to the City of Rock Rapids from the Trustees of the James W. and Ella B. Forster Charitable Trust.

There were no specific resolutions that were noted providing for the issuance of the local option sales & service tax revenue bonds.

On June 20, 2002, the City of Rock Rapids entered into a capital lease purchase agreement to acquire through lease a rescue vehicle for the fire department. The City of Rock Rapids will own the rescue vehicle at the end of the lease term. Lease payments are being made through the General Fund. The amount of lease payment under this agreement was \$31,479 (principal of \$25,898 and interest of \$5,581) during fiscal year ended June 30, 2004.

The Rock Rapids Municipal Utilities, a related party, made a loan to the City of Rock Rapids for \$150,000 during the fiscal year ended June 30, 2000. The operating loan note payable carried a 5.00% interest rate and the length of the note initially extended until October 1, 2002. On September 24, 2002, the length of this note receivable was formally extended until October 1, 2004. This loan was made for operating purposes for the City. The General Fund was the fund the loan proceeds went into upon receipt and the loan was repaid through the General Fund. This loan was satisfied in fiscal year ending June 30, 2004 by the City of Rock Rapids before the maturity date by paying off the remaining principal of \$50,128 and interest of \$55.

#### **(4) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$27,132, \$28,848 and \$28,760, respectively, equal to the required contributions for each year.

**(5) 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 termination payments payable to employees at June 30, 2004, primarily relating to the General and Road Use Tax Funds, is as follows:

Type of Benefit	Amount
Vacation	\$26,965
Sick Leave	14,145
<b>Total</b>	<b>\$41,110</b>

All of an employee's vacation is paid upon retirement, termination or death. If an employee has 10 or more years of service with the City, 15% of sick leave is paid upon retirement, termination or death. The amount of sick leave reported above only includes sick leave hours for employees that have attained the 10 years or more of service requirement.

This liability has been computed based on rates of pay in effect at June 30, 2004.

**(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 30,000
	Debt Service	15,000
		<u>45,000</u>
Special Revenue:	Special Revenue:	
Debt Service	Local Option Sales Tax	75,000
		<u>75,000</u>
<b>Total</b>		<b>\$ 120,000</b>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources. The transfer from the Debt Service Fund to the General Fund was done to reverse a temporary transfer made at the end of fiscal year 2003.

**(7) Risk Management**

The City of Rock Rapids 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 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.

**(8) Employee Health Insurance Coverage**

The City of Rock Rapids provides group health insurance coverage for eligible employees through Wellmark Blue Cross and Blue Shield of Iowa. The City assumes liability for claims against the insurance deductible of up to \$250 under an individual policy and \$500 for a family policy. The City's expense for insurance premiums and any deductibles paid for health insurance coverage is accounted for in the appropriate fund.

**(9) Intergovernmental Agreement**

The City has entered into an agreement with the Northwest Iowa Area Solid Waste Agency, in accordance with Chapter 28E of the Code of Iowa, for disposal of solid waste from within the City. Payments under this agreement were \$11,844 for the fiscal year ended June 30, 2004.

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 postclosure costs to the Agency have been estimated at \$1,874,500 as of June 30, 2003 and the portion of the liability that has been recognized by the Agency as of June 30, 2003 is \$836,315. The Agency has begun to accumulate resources to fund these costs. As of June 30, 2003, deposits of \$746,880 are held for these purposes. No estimate has been made as to the effect of any future assessments to the City.

**(10) Contingency**

The City is involved in a civil rights complaint filed in February 2004 alleging age discrimination. A mediation attempt has been unsuccessful. The City is vigorously defending the position that the City did nothing improper. There are no stated monetary damages sought at this time. The probability of loss, if any, is undeterminable.

**(11) Commitments**

In July 2003, the City agreed to cost-share an overlay project on a farm-to-market road. The total cost to the City is \$16,784, to be paid over 3 years at approximately \$5,595 per year. As of June 30, 2004, nothing has been paid toward this agreement.

In August 2003, the Rock Rapids Municipal Utilities committed \$20,000 to the City of Rock Rapids for the Recreation Trail Project. The amount committed is expected to be issued to the City of Rock Rapids during the fiscal year ended June 30, 2005.

In February 2004, the City approved a resolution guaranteeing participating funds of up to \$14,460 in order to receive a grant from the Iowa Department of Transportation for airport improvements. As of June 30, 2004, nothing has been paid on this airport project. Payment of the participating funds on the project will be made as work on the project progresses.

**(12) Subsequent Events**

Events that have occurred subsequent to June 30, 2004 include the following:

- a. In July 2004, the City entered into an agreement with a firm to perform a street seal coat and storm system project for \$122,325. A payment of \$95,736 was approved on this contract in August 2004.
- b. In August 2004, the City entered into an agreement with a firm to perform a seal coating project for \$15,941.
- c. In August 2004, the City approved and issued \$225,000 in general obligation capital loan notes for street seal coating, storm sewer and sanitary sewer projects.

**(13) Accounting Change**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Implementation of these standards had no effect on the beginning balance of the City.

**City of Rock Rapids**  
**Required Supplementary Information**

City of Rock Rapids

Budgetary Comparison Schedule of  
 Receipts, Disbursements and Changes in Balances—  
 Budget and Actual (Cash Basis) – All Governmental Funds  
 Primary Government  
 Required Supplementary Information  
 Year Ended June 30, 2004

	Governmental			Final to Net Variance
	Funds Actual	Budgeted Amounts		
		Original	Final	
<b>Receipts:</b>				
Property Tax	\$ 1,188,762	1,185,077	1,185,077	3,685
Tax Increment Financing Collections	59,727	63,700	63,700	( 3,973)
Other City Tax	136,968	124,617	124,617	12,351
Licenses and Permits	7,618	6,000	6,000	1,618
Use of Money and Property	52,561	34,650	34,650	17,911
Intergovernmental	722,305	693,024	943,024	( 220,719)
Charges for Service	224,826	293,447	293,447	( 68,621)
Special Assessments	25,120	0	0	25,120
Miscellaneous	185,300	149,300	174,300	11,000
<b>Total Receipts</b>	<b>2,603,187</b>	<b>2,549,815</b>	<b>2,824,815</b>	<b>( 221,628)</b>
<b>Disbursements:</b>				
Public Safety	242,243	281,690	321,390	79,147
Public Works	601,982	621,256	671,256	69,274
Health and Social Services	0	0	300	300
Culture and Recreation	384,414	380,735	445,735	61,321
Community and Economic Development	370,103	257,800	517,800	147,697
General Government	206,552	277,800	331,161	124,609
Debt Service	515,759	573,127	539,766	24,007
Capital Projects	95,876	456,000	456,000	360,124
<b>Total Disbursements</b>	<b>2,416,929</b>	<b>2,848,408</b>	<b>3,283,408</b>	<b>866,479</b>
Excess (Deficiency) of Receipts Over (Under) Disbursements	186,258	( 298,593)	( 458,593)	644,851
Other Financing Sources, Net	0	4,000	4,000	( 4,000)
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	186,258	( 294,593)	( 454,593)	640,851
Balances Beginning of Year	1,264,256	950,054	950,054	314,202
Balances End of Year	\$ 1,450,514	655,461	495,461	955,053

City of Rock Rapids

Budgetary Comparison Schedule of  
Receipts, Disbursements and Changes in Balances—  
Budget and Actual (Cash Basis) – All Governmental Funds  
Primary Government  
Required Supplementary Information  
Year Ended June 30, 2004

- 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 from the budget included \$3,199,278 in receipts (charges for service), \$3,482,347 in disbursements (business type/enterprises), balance beginning of year of \$1,690,109 and balance end of year of \$1,407,040.

## City of Rock Rapids

### Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

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 any blended component units (which there are none), Internal Service Funds (which there are none) and Fiduciary Funds (which there are none). 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 ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Permanent Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$435,000. The budget amendment is reflected in the final budgeted amounts.

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, 2004, disbursements did not exceed the final amended budget for any function for the City of Rock Rapids. However, the amended budget contained errors in amounts in the "total budget as certified or last amended" column and the "current amendment" column for the following functions: public safety, health and social services, general government and debt service. While the total government activities expenditures were correct, the aforementioned function amounts were allocated improperly compared to the original budget and consequently, the current amendment amount for each of these functions. Also, disbursements exceeded the amount budgeted in the community and economic development function before the budget was amended.

**City of Rock Rapids**  
**Other Supplementary Information**

City of Rock Rapids

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds  
Primary Government  
As of and for the Year Ended June 30, 2004

	Special Revenue		
	Employee Benefits	Local Option Sales Tax	Urban Renewal Tax Increment
<b>Receipts:</b>			
Property Tax	\$ 141,417	0	0
Tax Increment Financing Collections	0	0	59,727
Other City Tax	0	136,968	0
Use of Money and Property	0	0	0
Miscellaneous	0	0	0
<b>Total Receipts</b>	<b>141,417</b>	<b>136,968</b>	<b>59,727</b>
<b>Disbursements:</b>			
<b>Operating:</b>			
Public Safety	28,898	0	0
Public Works	33,827	0	0
Culture and Recreation	15,719	0	0
Community and Economic Development	6,350	0	59,671
General Government	20,451	0	0
<b>Total Disbursements:</b>	<b>105,245</b>	<b>0</b>	<b>59,671</b>
<b>Excess of Receipts Over Disbursements</b>	<b>36,172</b>	<b>136,968</b>	<b>56</b>
<b>Other Financing Uses:</b>			
Operating Transfers Out	0	(105,000)	0
<b>Net Change in Cash Balances</b>	<b>36,172</b>	<b>31,968</b>	<b>56</b>
<b>Cash Balances Beginning of Year</b>	<b>7,640</b>	<b>0</b>	<b>25</b>
<b>Cash Balances End of Year</b>	<b>\$ 43,812</b>	<b>31,968</b>	<b>81</b>
<b>Cash Basis Fund Balances</b>			
<b>Unreserved:</b>			
Special Revenue Funds	\$ 43,812	31,968	81
Permanent Funds	0	0	0
<b>Total Cash Basis Fund Balances</b>	<b>\$ 43,812</b>	<b>31,968</b>	<b>81</b>

See Accompanying Independent Auditor's Report.

Library Building Trust	Permanent		Total
	Library Endowment	Cemetery Perpetual Care	
0	0	0	141,417
0	0	0	59,727
0	0	0	136,968
312	0	0	312
0	2,000	1,500	3,500
312	2,000	1,500	341,924
0	0	0	28,898
0	0	0	33,827
0	0	0	15,719
0	0	0	66,021
0	0	0	20,451
0	0	0	164,916
312	2,000	1,500	177,008
0	0	0	(105,000)
312	2,000	1,500	72,008
32,745	0	14,860	55,270
33,057	2,000	16,360	127,278
33,057	0	0	108,918
0	2,000	16,360	18,360
33,057	2,000	16,360	127,278

City of Rock Rapids  
Statement of Indebtedness - Primary Government  
Year Ended June 30, 2004

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 Construction	April 1, 1994	4.50%	250,000	\$ 25,000	0	25,000	0	1,125	0
CL Drainage	August 13, 1996	5.00%	300,000	120,000	0	30,000	90,000	6,000	0
Mill Pond Drainage	August 1, 1997	4.80-5.00%	275,000	150,000	0	30,000	120,000	7,335	0
Street and Parking Lot Improvements	May 1, 2001	4.30-5.00%	475,000	385,000	0	60,000	325,000	17,350	0
Street and Waste Water Improvements and Drainage Project	May 1, 2003	1.85-3.75%	1,025,000	1,025,000	0	100,000	925,000	31,674	0
<b>Total</b>				<u>\$ 1,705,000</u>	<u>0</u>	<u>245,000</u>	<u>1,460,000</u>	<u>63,484</u>	<u>0</u>
General Obligation Bonds:									
Swimming Pool Improvements	October 1, 2000	5.00-5.30%	\$ 650,000	\$ 545,000	0	55,000	490,000	28,003	0
Grant Anticipation Capital Loan Notes:									
Forster Community Building	June 1, 1998	5.00-5.55%	\$ 670,000	\$ 510,000	0	35,000	475,000	26,995	0
Local Option Sales & Service Tax Revenue Bonds:									
Forster Community Building	June 1, 1998	5.00-5.50%	\$ 290,000	\$ 225,000	0	15,000	210,000	11,878	0
Forster Community Building	Dec. 22, 1998	*1%	330,000	198,000	0	33,000	165,000	0	0
<b>Total</b>				<u>\$ 423,000</u>	<u>0</u>	<u>48,000</u>	<u>375,000</u>	<u>11,878</u>	<u>0</u>

Operating Loan Note:

Rock Rapids Municipal  
Utilities (Related Party)

Sept. 8, 1999	5%	\$ 150,000	\$ 50,128	0	50,128	0	55	0
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Capital Lease:

Fire Equipment (Rescue Vehicle)

June 20, 2002	4.91-4.95%	\$ 136,290	\$ 111,625	0	25,898	85,727	5,581	0
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\*This is an optional interest rate that may or may not be charged at the discretion of the lender.

See Accompanying Independent Auditor's Report.

City of Rock Rapids  
Bond and Note Maturities – Primary Government  
June 30, 2004

General Obligation Capital Loan Notes

Year Ended June 30,	CL Drainage		Mill Pond Drainage		Street and Parking Lot Improvements		Street and Wastewater Improvements and Drainage Project		Total
	Issued Aug. 13, 1996		Issued Aug. 1, 1997		Issued May 1, 2001		Issued May 1, 2003		
	Interest Rates	Amounts	Interest Rates	Amounts	Interest Rates	Amounts	Interest Rates	Amounts	
2005	5.00%	\$ 30,000	4.80%	\$ 30,000	4.30%	\$ 65,000	1.85%	\$ 90,000	\$ 215,000
2006	5.00%	30,000	4.90%	30,000	4.40%	65,000	2.20%	95,000	220,000
2007	5.00%	30,000	5.00%	30,000	4.50%	65,000	2.55%	95,000	220,000
2008		0	5.00%	30,000	4.60%	25,000	2.85%	100,000	155,000
2009		0		0	4.70%	25,000	3.05%	100,000	125,000
2010		0		0	4.80%	25,000	3.25%	105,000	130,000
2011		0		0	4.90%	25,000	3.45%	110,000	135,000
2012		0		0	5.00%	30,000	3.60%	115,000	145,000
2013		0		0		0	3.75%	115,000	115,000
		<u>\$ 90,000</u>		<u>\$ 120,000</u>		<u>\$ 325,000</u>		<u>\$ 925,000</u>	<u>\$ 1,460,000</u>

Year Ending June 30,	General Obligation Bonds		Grant Anticipation Capital Loan Notes		Local Option Sales & Service Tax Revenue Bonds		Interest Rates	Amounts	Total		
	Swimming Pool Improvements		Forster Community Building		Forster Community Building					Forster Community Building	
	Issued Oct. 1, 2000		Issued June 1, 1998		Issued June 1, 1998					Issued Dec. 22, 1998	
2005	5.00%	\$ 60,000	5.00%	\$ 35,000	5.00%	\$ 15,000	*1.00%	\$ 33,000	\$ 48,000		
2006	5.05%	65,000	5.05%	40,000	5.05%	15,000	*1.00%	33,000	48,000		
2007	5.10%	65,000	5.10%	40,000	5.10%	20,000	*1.00%	33,000	53,000		
2008	5.15%	70,000	5.20%	45,000	5.20%	20,000	*1.00%	33,000	53,000		

2009	5.20%	75,000	5.30%	45,000	5.30%	25,000	*1.00%	33,000	58,000
2010	5.25%	75,000	5.35%	50,000	5.35%	25,000		0	25,000
2011	5.30%	80,000	5.40%	50,000	5.40%	30,000		0	30,000
2012		0	5.45%	55,000	5.45%	30,000		0	30,000
2013		0	5.50%	55,000	5.50%	30,000		0	30,000
2014		0	5.55%	60,000		0		0	0
Total		<u>\$ 490,000</u>		<u>\$ 475,000</u>		<u>\$ 210,000</u>		<u>\$ 165,000</u>	<u>\$ 375,000</u>

Capital Lease

Fire Equipment  
(Rescue Vehicle)

Year Ending June 30,	<u>Issued June 20, 2002</u>	
	Interest Rates	Amounts
2005	4.91%	\$ 27,193
2006	4.93%	28,553
2007	4.95%	29,981
		<u>\$ 85,727</u>

\* This is an optional interest rate that may or may not be charged at the discretion of the lender.

See Accompanying Independent Auditor's Report.

City of Rock Rapids  
 Schedule of Receipts by Source and Disbursements by Function –  
 All Governmental Funds  
 Primary Government  
 For the Last Four Years

	2004	2003	2002	2001
Receipts:				
Property Tax	\$ 1,188,762	1,004,626	929,077	848,909
Tax Increment Financing Collections	59,727	25	0	0
Other City Tax	136,968	139,648	136,967	127,399
Licenses and Permits	7,618	7,680	5,817	6,801
Use of Money and Property	52,561	55,240	55,407	63,199
Intergovernmental	722,305	459,510	452,243	513,355
Charges for Service	224,826	206,317	191,788	172,216
Special Assessments	25,120	107,964	4,411	7,329
Miscellaneous	185,300	236,677	170,468	260,526
	<hr/>			
Total Receipts	\$ 2,603,187	2,217,687	1,946,178	1,999,734
<hr/>				
Disbursements:				
Operating:				
Public Safety	\$ 242,243	224,089	266,961	180,688
Public Works	601,982	412,233	427,859	531,607
Culture and Recreation	384,414	336,579	384,732	304,022
Community and Economic Development	370,103	58,903	60,881	99,770
General Government	206,552	559,428	267,743	272,436
Debt Service	515,759	1,046,698	415,268	597,276
Capital Projects	95,876	616,287	499,568	843,191
	<hr/>			
Total Disbursements	\$ 2,416,929	3,254,217	2,323,012	2,828,990
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See Accompanying Independent Auditor's Report.

**City of Rock Rapids**

**Independent Auditor's Report on Compliance  
and on Internal Control over Financial Reporting  
and  
Schedule of Findings**

**Independent Auditor's Report on Compliance  
and on Internal Control over Financial Reporting**

To the Honorable Mayor, Members of the  
City Council and Officials of the City of Rock Rapids:

We have audited the financial statements of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 17, 2004. Our report expressed an unqualified opinion on the primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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, 2004, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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 and contracts, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are also described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 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. Prior year statutory comments have been resolved except for item 04-10.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Rock Rapids' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the primary government financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Rock Rapids' ability to record, process, summarize and report financial data consistent with the assertions of management in the primary government financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items 04-A, D, F, G, H, K and L are material weaknesses. Prior year reportable conditions have been resolved except for items 04-A, B, C, D, E, F, G, H, I, J and K.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of 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.

Siebrecht Spitler & De Noble PC  
Certified Public Accountants

September 17, 2004

**City of Rock Rapids**  
Schedule of Findings  
Year Ended June 30, 2004

**Findings Related to the Primary Government Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

04-A Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the handling of cash and numerous recordkeeping functions are not entirely separated among employees.

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 approve time sheets, check paychecks for accuracy, verify vacation and sick leave, examine employee expense reimbursements, and periodically examine investments.

Response – We will investigate this within economic constraints.

Conclusion – Response acknowledged. The City could segregate duties to the extent possible with existing personnel and Rock Rapids Municipal Utilities personnel, and also through utilizing administrative personnel to provide additional control through review of financial transactions and reports.

04-B Records of Accounts – The Library and Airport Boards maintain the accounting records pertaining to the operations of the library and the airport. These transactions and the resulting balances are not recorded in the Clerk’s records. 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.”

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

Response – The financial activity and balances of the Library and Airport Boards are subjected to annual audit and are handled by responsible individuals. No irregularities and only minor errors have ever been detected. If the Library and Airport Boards are willing and able to provide their services for no remuneration, the City Clerk will continue to review the Library and Airport Boards’ reports that are provided on a monthly basis as a form of control.

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

**City of Rock Rapids**  
Schedule of Findings  
Year Ended June 30, 2004

04-C Capital Assets Records – A complete record of capital assets is not maintained.

Recommendation – To facilitate the proper insurance, maintenance and safeguarding of these assets, such records should be established. An inventory of all property and equipment should be taken by an independent person at least once a year and compared against capital assets records.

Response – We will work on implementing this recommendation.

Conclusion – Response accepted. Please make an effort to work on this.

04-D Countersignature of Checks – Checks do not require dual signers.

Recommendation – In order to provide an additional control, checks should be prepared and signed by one individual and then the supporting vouchers and invoices should be made available along with the checks to the second individual for review and countersignature.

Response – We will consider this recommendation.

Conclusion – Response accepted. As having dual check signers adds an important additional control, we strongly recommend that the City does consider this. Procedures could be established to account for the situation when it is not feasible to have two check signers.

04-E Written Disaster Recovery Plan – The City should formally prepare a written disaster recovery plan regarding City operations. Prevention controls need to be reviewed.

Recommendation – A written disaster plan for City operations should be adopted, written confirmations should be obtained from suppliers for quick replacements, and prevention controls (example: fire prevention) should be reviewed for adequacy.

Response – We have an unwritten understanding on how we would proceed in the event of a disaster. We will work toward putting a disaster recovery plan in writing and also, review our prevention system.

Conclusion – Response accepted. Please do attempt to work on a written disaster recovery plan and review prevention controls.

04-F Off-Site Storage of Manual Records – Some manual records maybe should be duplicated and the copies stored at an off-site location.

Recommendation – Sensitive manual records should be evaluated for needed protection and stored at an off-site location.

Response – We will attempt to evaluate the manual records for what may need to be stored off-site.

**City of Rock Rapids**  
Schedule of Findings  
Year Ended June 30, 2004

Conclusion – Response accepted. Please do attempt to evaluate the manual records.

04-G Payroll Time Sheets/Time Cards – The City does not have a uniform policy on time sheets or time cards for all employees. Payroll time sheets/time cards are not always being signed/formally approved by the employee’s supervisor. Payroll time cards are allowed to be hand written at times, instead of exclusively using the time clock and no formal approval was noted by the supervisor on the time card.

Recommendation – The City should consider the need to require all City personnel to prepare daily time sheets or time cards. Payroll time sheets or time cards should be signed by the employee’s supervisor to attest to the accuracy of hours worked. If payroll time cards contain hand written check in/out times, the accuracy of the time written should specifically be approved in writing by the supervisor immediately.

Response – We will address this issue in an appropriate manner. We will attempt to monitor payroll procedures more closely.

Conclusion – Response accepted. It is important that this issue be addressed.

04-H Job Rotations – Financial personnel’s duties are not always rotated for a period of time each fiscal year.

Recommendation – The City should consider the need for financial personnel to annually take a minimum amount of vacation time and each person’s duties should be done by another employee when a person is on vacation. The City needs to have individuals who are trained in an employee’s position in case of an emergency to provide backup support.

Response – We will continue to work toward being able to rotate duties within economic constraints. We attempt to minimize any potential problems in this area through supervisory review of job duties.

Conclusion – Response accepted. Please attempt to rotate financial personnel’s duties on a regular basis.

04-I Vehicle Usage/Fuel Test – The City does not currently compare vehicle mileage to fuel consumption.

Recommendation – The City should consider establishing procedures to test vehicle usage in relation to fuel consumption. Mileage logs could be kept and tested against the fuel charged to a vehicle. Requisitions for each vehicle could be maintained and filed separately and then the requisitions could be reviewed for reasonableness.

**City of Rock Rapids**  
Schedule of Findings  
Year Ended June 30, 2004

Response – We will attempt to implement this recommendation.

Conclusion – Response accepted. Please do attempt to develop procedures to test vehicle usage in relation to fuel consumption.

04-J Credit Cards – The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges.

Response – We will attempt to adopt a formal written credit card policy.

Conclusion – Response accepted. Please attempt to adopt and implement a credit card policy.

04-K Bank Signature Cards – The City needs to remove from the authorized signers' lists at one bank an individual who is no longer authorized to make transactions. The City needs to get all bank accounts updated at this one bank to include only the properly authorized signers.

Recommendation – The City needs to correct the authorized bank accounts signers' lists to allow only all eligible current officials to make transactions. Procedures need to be established to ensure that individuals who are no longer authorized to make financial transactions are immediately removed from all authorized signers' lists and that the new individuals are properly authorized to do so on the signers' lists.

Response – We will implement this recommendation.

Conclusion – Response accepted. Please get the bank signature cards properly updated.

04-L Accounting Records – Supporting documentation on most general journal entries was not available.

Recommendation – The reason for all general journal entries should be documented in writing and readily available for review. An independent person should review all general journal entries for propriety.

Response – The City will address this in an appropriate manner.

Conclusion – Response accepted. It is important that the City document the purpose for all general journal entries and to have an independent person review all journal entries.

**City of Rock Rapids**  
 Schedule of Findings  
 Year Ended June 30, 2004

**Other Findings Related to Statutory Reporting:**

04-1 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

04-2 Certified Budget – During the year ended June 30, 2004, disbursements did not exceed the final amended budget for any function. However, disbursements during the year ended June 30, 2004 exceeded the amount in the community and economic development function before the budget was properly amended. Also, the amended budget contained errors in amounts in the “total budget as certified or last amended” column and the “current amendment” column for the following functions: public safety, health and social services, general government and debt service. While total government activities expenditures reported were correct, the aforementioned function amounts were allocated improperly compared to the original budget and consequently, the current amendment amount for each of these functions.

Recommendation – The budget should have been amended as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. Also, procedures need to be developed that help to ensure that any amended budgets do not contain any errors.

Response – We will monitor the procedures for amending the budget more closely.

Conclusion – Response accepted.

04-3 Questionable Disbursements – We did not note any disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

04-4 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

04-5 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Steve Herman, Husband of Laura Herman - Deputy City Clerk, Owner of H & S Building Center	Supplies and Repairs	\$2,771

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with H & S Building Center appear to represent a conflict of interest since total transactions were more than \$1,500

**City of Rock Rapids**  
Schedule of Findings  
Year Ended June 30, 2004

during the fiscal year and there was no documentation that the transactions were entered into through competitive bidding.

Recommendation – The City should comply with the Code of Iowa regarding business transactions between the City and City officials and employees. The City should consult legal counsel to determine the disposition of this matter. The City should retain documentation that supports that competitive bids were properly received if this is done in the future.

Response – We will monitor related party activity more closely in an attempt to comply with this Code of Iowa reference in the future.

Conclusion – Response accepted.

04-6 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.

04-7 Council and Board Minutes – No transactions were found that we believe should have been approved in the Council, Airport or Library minutes but were not.

04-8 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

04-9 Notes and Bonds – The City appears to be in compliance with its notes and bonds payable.

04-10 Partial Deductibles Health Insurance Coverage Plan – The City did not file with the Commissioner of Insurance a certificate of compliance, actuarial opinion, and an annual financial report as appears is required by Iowa Code Section 509A.15 on the City’s partial deductibles health insurance coverage plan. The City did not file the necessary written documentation to obtain an exemption from filing these reports. Please see Note 8 for information regarding deductibles covered by the City.

Recommendation – The City should consult with its legal counsel regarding this matter.

Response – We will make every attempt to comply with State rules in the future.

Conclusion – Response accepted. Please comply with this Iowa Code Section.

**City of Rock Rapids**  
Schedule of Findings  
Year Ended June 30, 2004

04-11 Unclaimed Property – The City has a couple of checks which have been outstanding for more than five years.

Recommendation – The City needs to cancel these outstanding checks and report these unclaimed funds to the State Treasurer as per Iowa Code Section 556.1(10).

Response – The City will address this issue.

Conclusion – Response accepted.

## City of Rock Rapids

### Staff

This audit was performed by:

David De Noble, CPA, Senior Auditor  
Myron Siebrecht, CPA, Senior Auditor  
Robert Ferreira, CPA, Assistant Auditor  
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