

**CITY OF ROCK RAPIDS**

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

**JUNE 30, 2005**

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## City of Rock Rapids

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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
Linda Trei	Deputy City Clerk	Indefinite
Linda McCormack	Librarian	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
John Stillson	Airport Commissioner	June 1, 2007
Arnold Kwikkel	Airport Commissioner	June 1, 2009
Mike Cleveringa	Airport Commissioner	June 1, 2011
Michael R. Austin	City Attorney	Indefinite (Appointed)

\*Ann Reckert passed away on April 28, 2005. This position remained vacant until August 23, 2005, when the mayor appointed Ben Brink for the remainder of the term.

## **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, 2005, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these 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, 2005, 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, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 23, 2005 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, contracts, grant agreements and other matters. The

purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information for the primary government on pages 4 through 9 and 23 through 26 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. Siebrecht Spitler & De Noble PC (Siebrecht Spitler & De Noble PC was formally dissolved and De Noble & Company PC is one of the two new companies that was formed directly from this dissolution) 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, 2004 (which are not 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 basic primary government financial statements and, in our opinion, is fairly stated, in all material respects in relation to the primary government financial statements taken as a whole.

De Noble & Company PC  
Certified Public Accounting Firm

September 23, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Rock Rapids provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2005 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 1.4%, or \$37,486, from fiscal 2004 to fiscal 2005. Operating grants, contributions and restricted interest decreased \$224,210, capital grants, contributions and restricted interest decreased \$51,245 and capital loan note proceeds increased \$225,000.
- Disbursements decreased 7.7%, or \$187,214, in fiscal year 2005 from fiscal year 2004. Culture and recreation and capital projects disbursements each increased approximately \$88,000. Public safety disbursements increased by approximately \$8,000. Public works, community development, general government, and debt service disbursements decreased by approximately \$152,000, \$131,000, \$54,000 and \$33,000 respectively.
- The City's total cash basis net assets from governmental activities increased 23.2%, or \$335,986, from June 30, 2004 to June 30, 2005.

### 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.

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 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 – Primary Government 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. Business type activities are financed primarily by user charges. 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, intergovernmental revenues, local option sales taxes, and charges for service 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, Library Memorial Trust 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– Primary Government.

**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 \$1,450,514 to \$1,786,500. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis of Net Assets of Governmental Activities

	<u>Year Ending June 30,</u>	
	<u>2005</u>	<u>2004</u>
Receipts:		
Program Receipts:		
Charges for Service	\$ 337,185	\$ 337,125
Operating Grants, Contributions and Restricted Interest	423,255	647,465
Capital Grants, Contributions and Restricted Interest	74,055	125,300
General Receipts:		
Property And Other City Tax	1,185,549	1,188,762
Tax Increment Financing	65,530	59,727
Local Option Sales Tax	146,064	136,968
Grants and Contributions Not Restricted		
To Specific Purpose	88,557	87,201
Unrestricted Investment Earnings	1,704	7,610
Capital Loan Note Proceeds	225,000	0
Other General Receipts	18,802	13,029
Total Receipts	<u>2,565,701</u>	<u>2,603,187</u>
Disbursements:		
Public Safety	250,076	242,243
Public Works	449,503	601,982
Culture And Recreation	472,025	384,414
Community And Economic Development	239,382	370,103
General Government	152,184	206,552
Debt Service	483,111	515,759
Capital Projects	183,434	95,876
Total Disbursements	<u>2,229,715</u>	<u>2,416,929</u>
Increase in Cash Basis Net Assets	335,986	186,258
Cash Basis Net Assets Beginning of Year	<u>1,450,514</u>	<u>1,264,256</u>
Cash Basis Net Assets End of Year	<u>\$ 1,786,500</u>	<u>\$ 1,450,514</u>

The City's total receipts for governmental activities decreased by 1.4%, or \$37,486. The total cost of all programs and services decreased by \$187,214, or 7.7%. The decrease in receipts was partly the result of having received state IDED and IDOT grant funding during the previous year. This decrease was partly offset by the issuance of general obligation capital loan notes during the 2005 fiscal year. The decrease in disbursements was partly due to construction of airport improvements and the Central Lyon community center, where both were grant funded, during the previous year.

Although the City increased regular property tax rates by approximately 4% for 2005, a decrease in the taxable valuation resulted in decreased property tax and other city receipts of \$3,213 during 2005. The City is projecting a decrease of approximately \$38,000, or 3%, in property and other city tax revenues for the 2006 fiscal year.

The cost of all governmental activities this year was \$2,229,715, compared to \$2,416,929 last year. The amount taxpayers ultimately financed for these activities was only \$1,395,220 because some of the cost was paid by those who directly benefited from the programs (\$337,185) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$497,310). The City paid for the remaining "public benefit" portion of governmental activities with \$225,000 in general obligation bonds and with other receipts such as property taxes, tax increment financing, local option sales tax, general entitlements and other miscellaneous revenues.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Rock Rapids completed the year, its governmental funds reported a combined cash balance of \$1,786,500; an increase of \$335,986 above last year's total of \$1,450,514. 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 \$19,737 from the prior year to \$536,031 at June 30, 2005. A significant part of this increase is due to having made the final payment during fiscal year 2004, in the amount of \$50,184, on a debt owed to the Rock Rapids Municipal Utilities. This item was partly offset by a decrease of \$45,000 in transfers-in from other funds during the previous year.
- The Road Use Tax Fund cash balance increased by \$59,179 from the prior year to \$270,286 at June 30, 2005. This increase is larger than the prior year's increase of \$38,439 due to lower disbursements during the fiscal year. The City intends to use this money to continue funding street department operations, street maintenance programs and replacement of equipment.
- The Library Memorial Trust Fund cash balance increased \$12,919 from the prior year to \$274,892 at June 30, 2005. The increase is similar to last fiscal year's increase of \$10,394. The increase is primarily due to the amount of interest earnings on investments and donations received from private sources.
- The Debt Service Fund cash balance increased \$105,190 from the prior fiscal year to \$206,498 at June 30, 2005. This was due to an excess of tax receipts over actual debt disbursements for the purpose of building up cash reserves in order to be able to make future payments on long-term debt.

- The Capital Projects Fund cash balance increased \$64,838 from the prior fiscal year to \$297,392 at June 30, 2005. The increase was due to issuing general obligation capital loan note proceeds to be used for sanitary sewer, drainage and street projects during the fiscal year but not spending all of the proceeds by the end of the fiscal year.

## BUDGETARY HIGHLIGHTS

The City amended its budget once during the year, on May 24, 2005, with the following results: (1) an increase of \$207,000 in budgeted operating disbursements; and (2) a decrease of \$280,000 in budgeted capital disbursements. This resulted in a net decrease of \$73,000 in total budgeted disbursements. The budgeted receipts did not change in the amended budget.

Reasons for the increase in budgeted operating disbursements were identified as follows: (1) Construction of Parking Lot and East Entrance to Library; (2) Installation of Electronic Message Board at Forster Community Center; (3) Painting and Repairs at Swimming Pool; (4) Economic Development Contributions; (5) Completion of Central Lyon Community Center with State (Community Attraction and Tourism) Grant Funding; (6) Other Miscellaneous.

Budgeted receipts came in \$159,743 below budget (due to intergovernmental receipts less than budgeted); disbursements came in \$486,848 below budget (all functions came in below budget); other financing sources, net came in \$231,853 above the budget (the note proceeds were not budgeted for) and the net cash change came in \$559,228 better than budgeted.

## DEBT ADMINISTRATION

At June 30, 2005, the City had \$2,725,534 in notes, bonds and other long-term debt, compared to \$2,885,727 last year, as shown below:

<u>Outstanding Debt at Year-End</u>		
<u>TYPE OF DEBT</u>	<u>June 30,</u>	
	<u>2005</u>	<u>2004</u>
General Obligation Notes and Bonds	\$ 1,900,000	\$ 1,950,000
Local Option Sales & Service Tax Revenue Bonds	327,000	375,000
Grant Anticipation Notes	440,000	475,000
Rescue Truck Lease (General Fund)	<u>58,534</u>	<u>85,727</u>
Total Long Term Debt	<u>\$ 2,725,534</u>	<u>\$ 2,885,727</u>

The City issued \$225,000 in general obligation capital loan notes during the fiscal year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,285,534 (total debt of \$2,725,534 minus grant anticipation notes of \$440,000) is adequately below its constitutional debt limit of \$4,389,531.

More detailed information about the City's long-term debt is presented 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 2006 budget, tax rates and fees that will be charged for various City activities. Among these factors is the growing disparity between the tax obligations of residential and commercial/industrial property.

Under the rollback factor, residential property was taxed at 48.5% of actual value for the 2005 fiscal year and decreases by 0.5%, to 48.0%, for the 2006 fiscal year. At the same time, commercial/industrial property was taxed at 99.3% of actual value for the 2005 fiscal year and increases by 0.7%, to 100.0% for the 2006 fiscal year. This amounts to a total increase of 1.2% in the difference between the two rates.

The resulting disproportionate share of taxes levied on commercial and industrial property adds to the challenges of competing with bordering states in economic development activities. As a remedy, a freezing of the residential rollback factor, coupled with a decrease in the commercial/industrial rollback factor, would bring the latter closer to the rates applicable to residential property.

These indicators were taken into account when adopting the budget for fiscal year 2006. 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 2006 with a projected decrease in tax revenues, while also maintaining an adequate cash reserve.

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

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact 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, 2005

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets
	Disbursements	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	\$ 250,076	6,257	30,366	0	( 213,453)
Public Works	449,503	181,844	213,934	2,352	( 51,373)
Culture and Recreation	472,025	105,673	42,330	431	( 323,591)
Community and Economic Development	239,382	5,787	126,848	0	( 106,747)
General Government	152,184	16,709	5,937	0	( 129,538)
Debt Service	483,111	3,915	3,840	65,000	( 410,356)
Capital Projects	183,434	17,000	0	6,272	( 160,162)
Total Governmental Activities	\$ 2,229,715	337,185	423,255	74,055	( 1,395,220)
<b>General Receipts:</b>					
Property and Other City Tax Levied for:					
General Purposes					609,768
Employee Benefits					135,235
Tax Increment Financing					65,530
Debt Service					440,546
Local Option Sales Tax					146,064
Grants and Contributions not Restricted to Specific Purpose					88,557
Unrestricted Interest on Investments					1,704
Rents					6,150
Perpetual Cemetery Care - Sale of Lots					3,500
Miscellaneous					2,299
Capital Loan Note Proceeds					225,000
Sale of Capital Assets					6,853

Total General Receipts	<u>1,731,206</u>
Change in Cash Basis Net Assets	335,986
Cash Basis Net Assets Beginning of Year	<u>1,450,514</u>
Cash Basis Net Assets End of Year	<u><u>\$ 1,786,500</u></u>

**Cash Basis Net Assets**

Restricted:	
Road Use Tax (Streets)	\$ 270,286
Library Projects	276,324
Capital Projects	297,392
Debt Service	206,498
Other Purposes	178,109
Permanent Funds (Library Endowment & Cemetery Perpetual Care)	21,860
Unrestricted	<u>536,031</u>
<b>Total Cash Basis Net Assets</b>	<u><u>\$ 1,786,500</u></u>

See Notes to Financial Statements.

City of Rock Rapids

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

As of and for the Year Ended June 30, 2005

	Special Revenue					Other Nonmajor Governmental Funds	Total
	General	Road Use Tax	Library Memorial Trust	Debt Service	Capital Projects		
Receipts:							
Property Tax	\$ 607,919	0	0	439,254	0	134,823	1,181,996
Tax Increment Financing Collections	0	0	0	0	0	65,530	65,530
Other City Tax	1,849	0	0	1,292	0	146,476	149,617
Licenses and Permits	10,032	0	0	0	0	0	10,032
Use of Money and Property	43,969	2,950	10,676	3,840	5,672	375	67,482
Intergovernmental	272,049	213,934	0	0	17,000	0	502,983
Charges for Service	229,100	0	0	0	0	0	229,100
Special Assessments	0	0	0	3,915	0	0	3,915
Miscellaneous	41,660	2,193	10,240	65,000	600	3,500	123,193
<b>Total Receipts</b>	<b>1,206,578</b>	<b>219,077</b>	<b>20,916</b>	<b>513,301</b>	<b>23,272</b>	<b>350,704</b>	<b>2,333,848</b>
Disbursements:							
Operating:							
Public Safety	224,367	0	0	0	0	25,709	250,076
Public Works	256,094	159,898	0	0	0	33,511	449,503
Culture and Recreation	404,675	0	7,997	0	0	59,353	472,025
Community and Economic Development	172,534	0	0	0	0	66,848	239,382
General Government	136,024	0	0	0	0	16,160	152,184
Debt Service	0	0	0	483,111	0	0	483,111
Capital Projects	0	0	0	0	183,434	0	183,434
<b>Total Disbursements</b>	<b>1,193,694</b>	<b>159,898</b>	<b>7,997</b>	<b>483,111</b>	<b>183,434</b>	<b>201,581</b>	<b>2,229,715</b>
Excess (Deficiency) of Receipts Over (Under) Disbursements	12,884	59,179	12,919	30,190	( 160,162)	149,123	104,133

Other Financing Sources (Uses):

Capital Loan Note Proceeds	0	0	0	0	225,000	0	225,000
Sale of Capital Assets	6,853	0	0	0	0	0	6,853
Operating Transfers In	0	0	0	75,000	0	0	75,000
Operating Transfers Out	0	0	0	0	0	( 75,000)	( 75,000)
<b>Total Other Financing Sources (Uses)</b>	<b>6,853</b>	<b>0</b>	<b>0</b>	<b>75,000</b>	<b>225,000</b>	<b>( 75,000)</b>	<b>231,853</b>
<b>Net Change in Cash Balances</b>	<b>19,737</b>	<b>59,179</b>	<b>12,919</b>	<b>105,190</b>	<b>64,838</b>	<b>74,123</b>	<b>335,986</b>
<b>Cash Balances Beginning of Year</b>	<b>516,294</b>	<b>211,107</b>	<b>261,973</b>	<b>101,308</b>	<b>232,554</b>	<b>127,278</b>	<b>1,450,514</b>
<b>Cash Balances End of Year</b>	<b>\$ 536,031</b>	<b>270,286</b>	<b>274,892</b>	<b>206,498</b>	<b>297,392</b>	<b>201,401</b>	<b>1,786,500</b>

**Cash Basis Fund Balances**

Reserved:

Debt Service	\$ 0	0	0	206,498	0	0	206,498
Unreserved:							
General Fund	536,031	0	0	0	0	0	536,031
Special Revenue Funds	0	270,286	274,892	0	0	179,541	724,719
Capital Projects Fund	0	0	0	0	297,392	0	297,392
Permanent Funds	0	0	0	0	0	21,860	21,860
<b>Total Cash Basis Fund Balances</b>	<b>\$ 536,031</b>	<b>270,286</b>	<b>274,892</b>	<b>206,498</b>	<b>297,392</b>	<b>201,401</b>	<b>1,786,500</b>

See Notes to Financial Statements.

# City of Rock Rapids

## Notes to Financial Statements

June 30, 2005

### (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, 2005, 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 were not for the City of Rock Rapids 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 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 \$132,910 from the Rock Rapids Municipal Utilities during the fiscal year ended June 30, 2005 (\$127,630 in contributions and \$5,280 for sanitary sewer fees). The Rock Rapids Municipal Housing Agency paid the City of Rock Rapids \$4,643 for payment in lieu of taxes during the fiscal year ended June 30, 2005.

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, 2005, 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, 2005, disbursements for the City of Rock Rapids did not exceed the final amended budget amount for any function.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2005 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.

At June 30, 2005, the City had the following investments:

<u>Fund Investments Held In</u>	Carrying	Fair	
Type of Investment	Amount	Value	Maturity
<u>Library Memorial Trust Fund</u>			
U.S. Government E Bonds	\$1,956	\$3,578	Various Dates

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

Concentration of credit risk. The City places no limit on the amount that may be invested in any one type of investment or any single issuer, except for the prime banker’s acceptances and commercial paper. Each type of investment, prime banker’s acceptances and commercial paper, at the time of purchase, is limited to ten percent of the total investment portfolio. No more than five percent of the total investment portfolio may be invested in the securities of a single issuer for prime banker’s acceptances and commercial paper.

### (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
2006	\$ 240,000	54,166	65,000	22,280	40,000	23,512
2007	240,000	45,715	65,000	18,998	40,000	21,492
2008	175,000	36,768	70,000	15,683	45,000	19,453
2009	145,000	30,607	75,000	12,078	45,000	17,113
2010	150,000	25,672	75,000	8,178	50,000	14,727
2011	160,000	20,310	80,000	4,240	50,000	12,053
2012	170,000	14,290	0	0	55,000	9,353
2013	140,000	7,612	0	0	55,000	6,355
2014	25,000	2,225	0	0	60,000	3,330
2015	25,000	1,125	0	0	0	0
Total	\$1,470,000	238,490	430,000	81,457	440,000	127,388

Year Ended	Local Option Sales & Service Tax Revenue	Capital
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June 30	Bonds		Lease		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	48,000	11,705	28,553	2,927	421,553	114,590
2007	53,000	10,618	29,981	1,499	427,981	98,322
2008	53,000	9,267	0	0	343,000	81,171
2009	58,000	7,897	0	0	323,000	67,695
2010	25,000	6,243	0	0	300,000	54,820
2011	30,000	4,905	0	0	320,000	41,508
2012	30,000	3,285	0	0	255,000	26,928
2013	30,000	1,650	0	0	225,000	15,617
2014	0	0	0	0	85,000	5,555
2015	0	0	0	0	25,000	1,125
<b>Total</b>	<b>327,000</b>	<b>55,570</b>	<b>58,534</b>	<b>4,426</b>	<b>2,725,534</b>	<b>507,331</b>

During the fiscal year ended June 30, 2005, the City issued \$225,000 in general obligation capital loan notes, redeemed principal on long-term debt of \$385,193, paid \$126,098 in interest on the long-term debt and paid \$3,300 in note/bond fees. The general obligation capital loan notes, general obligation bonds, grant anticipation capital loan note and local option sales & service tax revenue bonds are redeemed through the Debt Service Fund. The capital lease payable is being retired through the General Fund.

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 \$31,480 (principal of \$27,193 and interest of \$4,287) during fiscal year ended June 30, 2005.

**(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 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to

IPERS for the years ended June 30, 2005, 2004 and 2003 were \$26,649, \$27,132 and \$28,848, 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, 2005, primarily relating to the General and Road Use Tax Funds, is as follows:

Type of Benefit	Amount
Vacation	\$24,355
Sick Leave	14,267
Total	<u>\$38,622</u>

All of an employee’s vacation is paid upon retirement, termination or death. If an employee has ten 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 ten years or more of service requirement.

This liability has been computed based on rates of pay in effect at June 30, 2005.

**(6) Interfund Transfers**

The City of Rock Rapids made one interfund transfer for the year ended June 30, 2005 as follows:

Transfer to	Transfer from	Amount
Special Revenue: Debt Service	Special Revenue: Local Option Sales Tax	<u>\$ 75,000</u>

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

**(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 \$10,689 for the fiscal year ended June 30, 2005.

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 \$1,919,300 as of June 30, 2005 and the portion of the liability that has been recognized by the Agency as of June 30, 2005 is \$915,359. The Agency has begun to accumulate resources to fund these costs. As of June 30, 2005, deposits of \$1,128,220 are restricted for these purposes. The Agency has not fully demonstrated financial assurance for closure and postclosure case costs as required by Chapter 111.6(8) of the Iowa Administrative Code, which requires the deposits to be \$1,297,011. No estimate has been made as to the effect of any future assessments to the City.

**(10) Commitments**

In July 2003, the City agreed to cost-share with Lyon County 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, 2005, 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, 2006.

The City entered into a contract in June 2005 to have an airport taxiway project completed for \$40,663 (original contract of \$28,965 plus a change order of \$11,698 that was approved in July 2005). The City expects to be reimbursed by Iowa Department of Transportation funding in the amount of \$28,464 (70% of eligible project costs). The remaining funding is to be provided through the General Fund (airport funds). As of June 30, 2005, no costs on this project have been incurred. This contract will be paid as work on the project progresses.

The City entered into a contract in April 2005 for the paving of the library's east parking lot and to add an entrance to the east side of the library. The contract is for \$59,450. As of June 30, 2005, \$34,542 has been paid on this project. The remaining \$24,908 will be paid as work on the project progresses. The funding for this project is being provided through the General Fund (library funds), Library Memorial Trust Fund and the Library Building Trust Fund.

**(11) Subsequent Events**

Events that have occurred subsequent to June 30, 2005 include the following:

- a. In July 2005, the City entered into an agreement with a firm for the purchase, delivery and installation of skate park equipment in the amount of \$18,334. The funding for this equipment is to be provided through the General Fund.
- b. In August 2005, the City entered into an agreement with a firm for the purchase, delivery and installation of additional skate park equipment in the amount of \$14,785. The funding for this equipment is to be provided through the General Fund.

**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, 2005

	Governmental Funds		Final to Net	
	Actual	Budgeted Amounts	Original	Final
<b>Receipts:</b>				
Property Tax	\$ 1,181,996	1,183,867	1,183,867	( 1,871)
Tax Increment Financing Collections	65,530	65,000	65,000	530
Other City Tax	149,617	130,070	130,070	19,547
Licenses and Permits	10,032	6,000	6,000	4,032
Use of Money and Property	67,482	46,250	46,250	21,232
Intergovernmental	502,983	729,169	729,169	( 226,186)
Charges for Service	229,100	202,565	202,565	26,535
Special Assessments	3,915	12,000	12,000	( 8,085)
Miscellaneous	123,193	118,400	118,400	4,793
<b>Total Receipts</b>	<b>2,333,848</b>	<b>2,493,321</b>	<b>2,493,321</b>	<b>( 159,473)</b>
<b>Disbursements:</b>				
Public Safety	250,076	280,970	280,970	30,894
Public Works	449,503	605,137	605,137	155,634
Health and Social Services	0	300	300	300
Culture and Recreation	472,025	404,050	532,050	60,025
Community and Economic Development	239,382	272,350	344,350	104,968
General Government	152,184	179,250	186,250	34,066
Debt Service	483,111	516,706	516,706	33,595
Capital Projects	183,434	530,800	250,800	67,366
<b>Total Disbursements</b>	<b>2,229,715</b>	<b>2,789,563</b>	<b>2,716,563</b>	<b>486,848</b>
Excess (Deficiency) of Receipts Over (Under) Disbursements	104,133	( 296,242)	( 223,242)	327,375
Other Financing Sources, Net	231,853	0	0	231,853
<b>Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and</b>				
Other Financing Uses	335,986	( 296,242)	( 223,242)	559,228
Balances Beginning of Year	1,450,514	1,398,221	2,012,729	( 562,215)
Balances End of Year	\$ 1,786,500	1,101,979	1,789,487	( 2,987)

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, 2005

- 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 \$3,407,776 in receipts (charges for service), \$3,625,054 in disbursements (business type/enterprises), balance beginning of year of \$1,631,881 and balance end of year of \$1,414,603.

See Accompanying Independent Auditor's Report.

## City of Rock Rapids

### Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

The budgetary comparison is presented as Required Supplementary Information 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) 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 Proprietary 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 decreased overall budgeted disbursements by \$73,000. 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, 2005, disbursements did not exceed the final amended budget amount for any function.

**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, 2005

	Special Revenue		
	Employee Benefits	Local Option Sales Tax	Urban Renewal Tax Increment
<b>Receipts:</b>			
Property Tax	\$ 134,823	0	0
Tax Increment Financing Collections	0	0	65,530
Other City Tax	412	146,064	0
Use of Money and Property	0	0	0
Miscellaneous	0	0	0
<b>Total Receipts</b>	<b>135,235</b>	<b>146,064</b>	<b>65,530</b>
<b>Disbursements:</b>			
Operating:			
Public Safety	25,709	0	0
Public Works	33,511	0	0
Culture and Recreation	27,353	0	0
Community and Economic Development	7,947	0	58,901
General Government	16,160	0	0
<b>Total Disbursements:</b>	<b>110,680</b>	<b>0</b>	<b>58,901</b>
Excess (Deficiency) of Receipts Over (Under) Disbursements	24,555	146,064	6,629
Other Financing Uses:			
Operating Transfers Out	0	( 75,000)	0
Net Change in Cash Balances	24,555	71,064	6,629
Cash Balances Beginning of Year	43,812	31,968	81
Cash Balances End of Year	\$ 68,367	103,032	6,710
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special Revenue Funds	\$ 68,367	103,032	6,710
Permanent Funds	0	0	0
<b>Total Cash Basis Fund Balances</b>	<b>\$ 68,367</b>	<b>103,032</b>	<b>6,710</b>

See Accompanying Independent Auditor's Report.

Library Building Trust	Permanent		Total
	Library Endowment	Cemetery Perpetual Care	
0	0	0	134,823
0	0	0	65,530
0	0	0	146,476
375	0	0	375
0	0	3,500	3,500
375	0	3,500	350,704
0	0	0	25,709
0	0	0	33,511
32,000	0	0	59,353
0	0	0	66,848
0	0	0	16,160
32,000	0	0	201,581
( 31,625)	0	3,500	149,123
0	0	0	( 75,000)
( 31,625)	0	3,500	74,123
33,057	2,000	16,360	127,278
1,432	2,000	19,860	201,401
1,432	0	0	179,541
0	2,000	19,860	21,860
1,432	2,000	19,860	201,401

City of Rock Rapids  
Statement of Indebtedness - Primary Government  
Year Ended June 30, 2005

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:									
CL Drainage	August 13, 1996	5.00%	\$ 300,000	\$ 90,000	0	30,000	60,000	4,500	0
Mill Pond Drainage	August 1, 1997	4.90-5.00%	275,000	120,000	0	30,000	90,000	5,910	0
Street and Parking Lot Improvements	May 1, 2001	4.40-5.00%	475,000	325,000	0	65,000	260,000	14,830	0
Street and Waste Water Improvements and Drainage Project	May 1, 2003	2.20-3.75%	1,025,000	925,000	0	90,000	835,000	27,738	0
Storm Sewer, Drainage and Street Projects	August 8, 2004	2.65-4.50%	225,000	0	225,000	0	225,000	7,156	0
<b>Total</b>				<b>\$ 1,460,000</b>	<b>225,000</b>	<b>215,000</b>	<b>1,470,000</b>	<b>60,134</b>	<b>0</b>
General Obligation Bonds:									
Swimming Pool Improvements	October 1, 2000	5.05-5.30%	\$ 650,000	\$ 490,000	0	60,000	430,000	25,280	0
Grant Anticipation Capital Loan Notes:									
Forster Community Building	June 1, 1998	5.05-5.55%	\$ 670,000	\$ 475,000	0	35,000	440,000	25,262	0
Local Option Sales & Service Tax Revenue Bonds:									
Forster Community Building	June 1, 1998	5.05-5.50%	\$ 290,000	\$ 210,000	0	15,000	195,000	11,135	0
Forster Community Building	Dec. 22, 1998	*1%	330,000	165,000	0	33,000	132,000	0	0
<b>Total</b>				<b>\$ 375,000</b>	<b>0</b>	<b>48,000</b>	<b>327,000</b>	<b>11,135</b>	<b>0</b>
Capital Lease:									
Fire Equipment (Rescue Vehicle)	June 20, 2002	5.00%	\$ 136,290	\$ 85,727	0	27,193	58,534	4,287	0

\*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, 2005

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		Storm Sewer Project		Total
	Issued Aug. 13, 1996		Issued Aug. 1, 1997		Issued May 1, 2001		Issued May 1, 2003		Issued Aug. 10, 2004		
	Interest Rates	Amounts	Interest Rates	Amounts	Interest Rates	Amounts	Interest Rates	Amounts	Interest Rates	Amounts	
2006	5.00%	\$ 30,000	4.90%	\$ 30,000	4.40%	\$ 65,000	2.20%	\$ 95,000	2.65%	\$ 20,000	\$ 240,000
2007	5.00%	30,000	5.00%	30,000	4.50%	65,000	2.55%	95,000	3.00%	20,000	240,000
2008		0	5.00%	30,000	4.60%	25,000	2.85%	100,000	3.30%	20,000	175,000
2009		0		0	4.70%	25,000	3.05%	100,000	3.55%	20,000	145,000
2010		0		0	4.80%	25,000	3.25%	105,000	3.75%	20,000	150,000
2011		0		0	4.90%	25,000	3.45%	110,000	4.00%	25,000	160,000
2012		0		0	5.00%	30,000	3.60%	115,000	4.15%	25,000	170,000
2013		0		0		0	3.75%	115,000	4.30%	25,000	140,000
2014		0		0		0		0	4.40%	25,000	25,000
2015		0		0		0		0	4.50%	25,000	25,000
		<u>\$ 60,000</u>		<u>\$ 90,000</u>		<u>\$ 260,000</u>		<u>\$ 835,000</u>		<u>\$ 225,000</u>	<u>\$ 1,470,000</u>

Year Ending June 30,	General Obligation Bonds		Grant Anticipation Capital Loan Notes		Local Option Sales & Service Tax Revenue Bonds				
	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		
	Interest Rates	Amounts	Interest Rates	Amounts	Amounts	Total	Interest Rates	Amounts	Total
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>\$ 430,000</u>		<u>\$ 440,000</u>		<u>\$ 195,000</u>	<u>\$ 132,000</u>	<u>\$ 327,000</u>

Year Ending June 30,	Capital Lease Fire Equipment (Rescue Vehicle) Issued June 20, 2002	
	Interest Rates	Amounts
2006	5.00%	\$ 28,553
2007	5.00%	29,981
		<u>\$ 58,534</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

	2005	2004	2003	2002
<b>Receipts:</b>				
Property Tax	\$ 1,181,996	1,188,762	1,004,626	929,077
Tax Increment Financing Collections	65,530	59,727	25	0
Other City Tax	149,617	136,968	139,648	136,967
Licenses and Permits	10,032	7,618	7,680	5,817
Use of Money and Property	67,482	52,561	55,240	55,407
Intergovernmental	502,983	722,305	459,510	452,243
Charges for Service	229,100	224,826	206,317	191,788
Special Assessments	3,915	25,120	107,964	4,411
Miscellaneous	123,193	185,300	236,677	170,468
<b>Total Receipts</b>	<b>\$ 2,333,848</b>	<b>2,603,187</b>	<b>2,217,687</b>	<b>1,946,178</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public Safety	\$ 250,076	242,243	224,089	266,961
Public Works	449,503	601,982	412,233	427,859
Culture and Recreation	472,025	384,414	336,579	384,732
Community and Economic Development	239,382	370,103	58,903	60,881
General Government	152,184	206,552	559,428	267,743
Debt Service	483,111	515,759	1,046,698	415,268
Capital Projects	183,434	95,876	616,287	499,568
<b>Total Disbursements</b>	<b>\$ 2,229,715</b>	<b>2,416,929</b>	<b>3,254,217</b>	<b>2,323,012</b>

See Accompanying Independent Auditor's Report.

**City of Rock Rapids**

**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  
and  
Schedule of Findings**

**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, 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, 2005, and have issued our report thereon dated September 23, 2005. 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, 2005, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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 caused by error or fraud 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 05-A, D, F, G, H, K and L are material weaknesses.

### 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 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, 2005 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.

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, including federal awarding agencies and pass-through entities. 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.

De Noble & Company PC  
Certified Public Accounting Firm

September 23, 2005

**City of Rock Rapids**  
Schedule of Findings  
Year Ended June 30, 2005

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

05-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, periodically examine investments, review invoices and review the financial records.

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.

05-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 – Response acknowledged. The City of Rock Rapids is aware of our recommendation.

**City of Rock Rapids**  
Schedule of Findings  
Year Ended June 30, 2005

05-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 do make an effort to work on this.

05-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 and attempt to implement this.

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.

05-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 – In fiscal year 2005/2006, we have adopted a written disaster recovery plan. We will work on reviewing our prevention system.

Conclusion – Response accepted. Please do attempt to review your prevention controls.

05-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, 2005

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

05-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.

05-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 acknowledged. Please attempt to rotate financial personnel’s duties on a regular basis.

05-I Vehicle Usage/Fuel Test – For the majority of the year, the City did not compare vehicle mileage to fuel consumption.

Recommendation – The City should establish 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.

Response – We are working to implement this recommendation completely.

**City of Rock Rapids**  
Schedule of Findings  
Year Ended June 30, 2005

Conclusion – Response accepted. Please do monitor vehicle usage in relation to fuel consumption on a regular basis.

05-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.

05-K Bank Signature Cards – The City needs to remove from the authorized signers' list at one bank an individual who is no longer authorized to make transactions. The City needs to update one bank account to include only the properly authorized signers.

Recommendation – The City needs to correct the authorized bank accounts signers' list 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 do get the bank signature card properly updated.

05-L Information Systems – During our review of internal control, the existing control activities in the City's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City's computer based systems were noted:

The City does not have written policies that require:

- password protection on all computers.
- passwords should be safeguarded and not easily available when computers are unattended.

**City of Rock Rapids**  
Schedule of Findings  
Year Ended June 30, 2005

- password length to be set at a minimum of at least six characters.

Recommendation – Written policies should be developed addressing the above information system issues in order to improve the control over computer based systems.

Response – We will consider implementing these computer related policies.

Conclusion – Response accepted.

05-M

Library's Personnel Policy – The City of Rock Rapids Library's "personnel rules and regulations policy" is not up-to-date with some of the current policies being followed.

Recommendation – The City of Rock Rapids Library should update the "personnel rules and regulations policy" to correspond with the current policies being followed. The City's attorney should review the revised policy for any legal issues before the revised policy is formally adopted.

Response – We will have the Library update its "personnel rules and regulations policy".

Conclusion – Response accepted.

**City of Rock Rapids**  
Schedule of Findings  
Year Ended June 30, 2005

**Other Findings Related to Statutory Reporting:**

- 05-1      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, 2005.
- 05-2      Certified Budget – Disbursements during the fiscal year ended June 30, 2005 did not exceed the amount budgeted in any of the functions.
- 05-3      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.
- 05-4      Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted. However, please see finding related to the primary government financial statements 05-J for a possibly related comment.
- 05-5      Business Transactions – No business transactions between the City and City officials or employees were noted.
- 05-6      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.
- 05-7      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.
- 05-8      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.
- 05-9      Notes and Bonds – The City appears to be in compliance with its notes and bonds payable.
- 05-10     Electronically Retained Check Images – The back (endorsement) side of electronically retained check images of checks that have cleared the bank are not being received and maintained as required by Chapter 554D.114(5) of the Code of Iowa.

**City of Rock Rapids**  
Schedule of Findings  
Year Ended June 30, 2005

Recommendation – The City should be receiving and maintaining the back (endorsement) side of electronically retained check images of checks that have cleared the bank.

Response – We will comply with the Iowa Code by requesting that we receive the canceled checks.

Conclusion – Response accepted.

## City of Rock Rapids

### Listing of Auditors

This audit was performed by:

David De Noble, CPA, Senior Auditor  
Myron Siebrecht, CPA, Senior Auditor  
Robert Ferreira, CPA, Assistant Auditor  
James Fisher, CPA, Assistant Auditor  
Jerry Stubbe, Assistant Auditor  
Gregg Miller, Assistant Auditor

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Certified Public Accounting Firm