



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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Auditor of State

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**NEWS RELEASE**

Contact: Ernest Ruben  
515/281-5834

FOR RELEASE

March 31, 2023

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Auditor of State Rob Sand today released an audit report on the City of Fruitland, Iowa.

**FINANCIAL HIGHLIGHTS:**

The City's receipts and disbursements for the year ended June 30, 2022 totaled \$746,169 and \$572,576, respectively.

**AUDIT FINDINGS:**

Sand reported nine findings related to the receipt and disbursement of taxpayer funds. They are found on pages 30 through 35 of this report. The findings address issues such as a lack of segregation of duties, a lack of a comprehensive bank reconciliation, a lack of a cell phone reimbursement policy, payroll fringe benefits not reported on employees' W-2s and a donation to a private cemetery.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the audit report is available for review on the Auditor of State's website at [Audit Reports – Auditor of State](#).

# # #

**CITY OF FRUITLAND**

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

**JUNE 30, 2022**

**City of Fruitland**



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Rob Sand  
Auditor of State

March 28, 2023

Officials of the City of Fruitland  
Fruitland, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the financial and compliance audit report for the City of Fruitland for the year ended June 30, 2022. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Fruitland throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and written in a cursive-like font.

Rob Sand  
Auditor of State

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**City of Fruitland**

**Officials**

**(Before January 2022)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Marty Hills	Mayor	Jan 2022
Susan Garrett	Mayor Pro tem/Council	Jan 2024
Perry Anderson	Council Member	Jan 2022
Brent Bowers	Council Member	Jan 2022
Chris Painter	Council Member	Jan 2022
Sarah Hillman	Council Member	Jan 2024
Becca Shoppa	City Clerk	Indefinite
Torie Roenfeldt	Deputy Clerk	Indefinite

**(After January 2022)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Marty Hills	Mayor	Jan 2024
Susan Garrett	Mayor Pro tem/Council	Jan 2024
Sarah Hillman	Council Member	Jan 2024
Kirk Hogan	Council Member	Jan 2026
Chris Painter	Council Member	Jan 2026
Jennifer Smith	Council Member	Jan 2026
Becca Shoppa	City Clerk	Indefinite
Torie Roenfeldt	Deputy Clerk	Indefinite

**City of Fruitland**



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Audit of the Financial Statements

Qualified Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Fruitland, Iowa, as of and for the year ended June 30, 2022, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2021, as described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities and each major fund of the City of Fruitland as of June 30, 2022, and the respective changes in cash basis financial position for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis for Qualified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all the prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balances at July 1, 2021.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of the City of Fruitland, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 3 to the financial statements, the City of Fruitland adopted new accounting guidance related to Governmental Accounting Standards Board Statement No. 87, Leases. Our opinions are not modified with respect to this matter.



## Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Fruitland's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Fruitland's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Fruitland's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

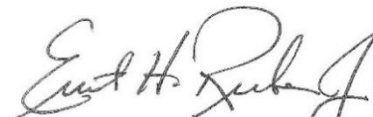
Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 22 through 27 but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2023 on our consideration of the City of Fruitland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Fruitland's internal control over financial reporting and compliance.



Ernest H. Ruben, Jr., CPA  
Deputy Auditor of State

March 28, 2023

## **Basic Financial Statements**

City of Fruitland

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2022

	Program Receipts			Net Disbursements (Receipts) and Changes in Cash Basis Net Position
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Total Governmental Activities
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 86,997	-	-	(86,997)
Public works	240,995	103,130	133,623	(4,242)
Culture and recreation	57,049	22,899	11,829	(22,321)
Community and economic development	204	829	-	625
General government	112,743	4,833	150	(107,760)
Debt service	74,588	-	-	(74,588)
Total	<u>\$ 572,576</u>	<u>131,691</u>	<u>145,602</u>	<u>(295,283)</u>
<b>General Receipts:</b>				
Property and other city tax levied for general purposes				264,918
Local option sales tax				129,916
American Rescue Plan Act				73,416
Unrestricted interest on investments				625
Total general receipts				<u>468,875</u>
Change in cash basis net position				173,592
Cash basis net position beginning of year				<u>863,551</u>
Cash basis net position end of year				<u>\$ 1,037,143</u>
<b>Cash Basis Net Position</b>				
Restricted:				
Streets				72,305
Local option sales tax purposes				307,888
Unrestricted				<u>656,950</u>
<b>Total cash basis net position</b>				<u>\$ 1,037,143</u>

See notes to financial statements.

City of Fruitland

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

As of and for the year ended June 30, 2022

	Special Revenue		
	General	Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 257,652	-	-
Local option sales tax	-	-	129,916
Other city tax	7,266	-	-
Licenses and permits	2,153	-	-
Use of money and property	16,736	-	-
Intergovernmental	73,571	133,468	-
Charges for service	102,714	-	-
Miscellaneous	22,276	416	-
Total receipts	<u>482,368</u>	<u>133,884</u>	<u>129,916</u>
Disbursements:			
Operating:			
Public safety	42,224	-	44,773
Public works	107,429	119,387	14,179
Culture and recreation	38,186	-	18,863
Community and economic development	204	-	-
General government	112,026	-	717
Debt service	-	-	-
Total disbursements	<u>300,069</u>	<u>119,387</u>	<u>78,532</u>
Excess (deficiency) of receipts over (under) disbursements	<u>182,299</u>	<u>14,497</u>	<u>51,384</u>
Other financing sources (uses):			
Transfers in	-	-	-
Transfers out	(74,588)	-	-
Total other financing sources (uses)	<u>(74,588)</u>	<u>-</u>	<u>-</u>
Change in cash balances	107,711	14,497	51,384
Cash balances beginning of year	549,239	57,808	256,504
Cash balances end of year	<u>\$ 656,950</u>	<u>72,305</u>	<u>307,888</u>
<b>Cash Basis Fund Balances</b>			
Restricted for:			
Streets	\$ -	72,305	-
Local option sales tax purposes	-	-	307,888
Unassigned	656,950	-	-
Total cash basis fund balances	<u>\$ 656,950</u>	<u>72,305</u>	<u>307,888</u>

See notes to financial statements.

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<u>Debt Service</u>	<u>Total</u>
-	257,652
-	129,916
-	7,266
-	2,153
-	16,736
-	207,039
-	102,714
-	22,692
-	<u>746,168</u>
-	86,997
-	240,995
-	57,049
-	204
-	112,743
74,588	<u>74,588</u>
<u>74,588</u>	<u>572,576</u>
<u>(74,588)</u>	<u>173,592</u>
74,588	74,588
-	<u>(74,588)</u>
<u>74,588</u>	-
-	173,592
-	<u>863,551</u>
-	<u>1,037,143</u>
-	72,305
-	307,888
-	656,950
-	<u>1,037,143</u>

City of Fruitland

Notes to Financial Statements

June 30, 2022

**(1) Summary of Significant Accounting Policies**

The City of Fruitland is a political subdivision of the State of Iowa located in Muscatine County. It was first incorporated in 1972 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 Fruitland has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards or commissions: Muscatine County Assessor's Conference Board, Muscatine County Joint 911 Service Board and the Muscatine County Emergency Management Commission.

B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement.

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

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

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

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

Fund Financial Statements – Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for the collection and use of local option sales tax, for purposes authorized in the LOST referendum.

The Debt Service Fund is utilized to account for receipts to be used for the payment of interest and principal on the City's general long-term debt.

C. Measurement Focus and Basis of Accounting

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

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

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



D. Property Taxes and Governmental Cash Basis Fund Balances

The following accounting policies are followed in preparing the financial statements:

Property tax revenues recognized in the governmental funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2020 assessed property valuations; is for the tax accrual period July 1, 2021 through June 30, 2022 and reflects tax asking contained in the budget certified to the City Council in March 2021.

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2022 disbursements did not exceed budgeted amounts.

**(2) Cash and Pooled Investments**

The City’s deposits in banks at June 30, 2022 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

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

**(3) Lessor Agreement**

The City owns a building that is rented to the United States Postal Service for use as the post office. Effective December 20, 2006, the City entered into a five-year lease agreement and has exercised its renewal options through October 31, 2022. The City is to receive monthly payments of \$385 with an estimated implicit interest rate of 2.5%. During the year ended June 30, 2022, the City received principal and interest of \$4,520 and \$100, respectively, from the agreement.

Year Ending June 30,	USPS		Total
	Principal	Interest	
2023	\$ 1,532	8	1,540

**(4) Bonds Payable**

A summary of changes in bonds payable for the year ended June 30, 2022 is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Due Within One Year
General obligation bonds	\$ 860,000	-	45,000	815,000	45,000

General Obligation Bonds

A summary of the City's June 30, 2022 general obligation bonds payable is as follows:

Year Ending June 30,	Street Improvement Issued Feb 13, 2018			
	Interest Rates	Principal	Interest	Total
2023	2.50%	\$ 45,000	28,013	73,013
2024	2.50	45,000	26,888	71,888
2025	3.00	45,000	25,763	70,763
2026	3.00	45,000	24,413	69,413
2027	3.00	50,000	23,063	73,063
2028-2032	3.125-4.00	265,000	91,718	356,718
2033-2037	4.00	320,000	39,400	359,400
Total		\$ 815,000	259,258	1,074,258

On February 13, 2018, the City issued \$975,000 of general obligation street improvement bonds with an interest rate ranging from 2.00 to 4.00% per annum. The bonds were issued for the purpose of constructing street improvements and paying certain costs of issuance related to the bonds. During the fiscal year ended June 30, 2022, the City paid \$45,000 of principal and \$29,138 of interest on the bonds.

**(5) Pension Plan**

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

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

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

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

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

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

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

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

In fiscal year 2022, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%. The City’s contributions to IPERS for the year ended June 30, 2022 totaled \$9,547.

Net Pension Liability (Asset), Pension Expense (Reduction), Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2022, the City reported a liability of \$1,514 for its proportionate share of the overall plan net pension asset. The overall plan net pension asset was measured as of June 30, 2021. The total pension liability used to calculate the overall plan net pension asset was determined by an actuarial valuation as of that date. The City’s proportion of the overall plan net pension asset was based on the City’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2021, the City’s proportion was (0.000439)%, which was an increase of 0.001654% over its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the City’s pension expense (reduction), deferred outflows of resources and deferred inflows of resources totaled \$(5,265), \$2,142 and \$63,514, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability (asset) in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

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

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2021 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

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

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	4.43%
International equity	17.5	6.01
Global smart beta equity	6.0	5.10
Core plus fixed income	26.0	0.29
Public credit	4.0	2.08
Cash	1.0	(0.25)
Private equity	13.0	9.51
Private real assets	7.5	4.63
Private credit	3.0	2.87
Total	100.0%	

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

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability (asset)	\$ 53,593	1,514	(42,131)

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2022, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 4,250
Sick leave	<u>4,100</u>
Total	<u>\$ 8,350</u>

This liability has been computed based on rates of pay in effect at June 30, 2022.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2022 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Debt Service	General	<u>\$ 74,588</u>

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

**(8) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; error 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.

**(9) Prospective Accounting Change**

Governmental Accounting Standards Board has issued Statement No. 96, Subscription-Based Information Technology Arrangements. The statement will be implemented for the fiscal year ending June 30, 2023. The revised requirements of this statement will require reporting of the right to use another party's information technology software alone or in combination with tangible capital assets that are not currently reported.

**City of Fruitland**

## **Other Information**



City of Fruitland  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances –  
 Budget and Actual – All Governmental Funds

Other Information

Year ended June 30, 2022

	Actual	Budgeted Amounts Original/ Final	Final to Actual Variance
Receipts:			
Property tax	\$ 257,652	254,150	3,502
Other city tax	137,182	119,324	17,858
Licenses and permits	2,153	1,439	714
Use of money and property	16,736	12,860	3,876
Intergovernmental	207,039	117,387	89,652
Charges for service	102,714	97,000	5,714
Special assessments	-	2,471	(2,471)
Miscellaneous	22,692	15,750	6,942
Total receipts	<u>746,168</u>	<u>620,381</u>	<u>125,787</u>
Disbursements:			
Public safety	86,997	89,880	2,883
Public works	240,995	258,669	17,674
Culture and recreation	57,049	59,675	2,626
Community and economic development	204	1,000	796
General government	112,743	134,570	21,827
Debt service	74,588	74,588	-
Total disbursements	<u>572,576</u>	<u>618,382</u>	<u>45,806</u>
Excess of receipts over disbursements	173,592	1,999	79,981
Balances beginning of year	<u>863,551</u>	<u>763,367</u>	<u>100,184</u>
Balances end of year	<u>\$ 1,037,143</u>	<u>765,366</u>	<u>271,777</u>

See accompanying independent auditor's report.

City of Fruitland

Notes to Other Information – Budgetary Reporting

June 30, 2022

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, and debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, and the Debt Service Fund. 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 ended June 30, 2022, disbursements did not exceed amounts budgeted.

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City of Fruitland

Schedule of the City's Proportionate Share of the Net Pension Liability (Asset)

Iowa Public Employees' Retirement System  
For the Last Two Years\*

Other Information

	<u>2022</u>	<u>2021</u>
City's proportion of the net pension liability/asset	0.000439% **	0.001654%
City's proportionate share of the net pension liability (asset)	\$ 2	85
City's covered payroll	\$ 87,663	97,127
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	0.01%	0.09%
IPERS' net position as a percentage of the total pension liability	100.81%	82.90%

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

\*\* Overall plan net pension asset.

See accompanying independent auditor's report.

City of Fruitland  
 Schedule of City Contributions  
 Iowa Public Employees' Retirement System  
 For the Last Three Years

Other Information

	2022	2021	2020
Statutorily required contribution	\$ 9,501	8,275	9,169
Contributions in relation to the statutorily required contribution	(9,501)	(8,275)	(9,169)
Contribution deficiency (excess)	\$ -	-	-
City's covered payroll	\$ 100,647	87,663	97,127
Contributions as a percentage of covered payroll	9.44%	9.44%	9.44%

**Note:** City contributions and covered payroll information for the years ended June 30, 2013 through June 30, 2019 were not readily available.

See accompanying independent auditor's report.

**City of Fruitland**

City of Fruitland

Notes to Other Information – Pension Liability

Year ended June 30, 2022

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

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

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

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

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.



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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the City of Fruitland, Iowa, as of and for the year ended June 30, 2022, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 28, 2023. The financial statements were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed modified opinions on the governmental activities and each major fund since we were unable to satisfy ourselves as to the distribution by fund of the total July 1, 2021 fund balance.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Fruitland's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fruitland's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Fruitland's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items 2022-001 and 2022-002 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items 2022-003 and 2022-004 to be significant deficiencies.

## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fruitland's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 noncompliance or other matters which are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2022 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

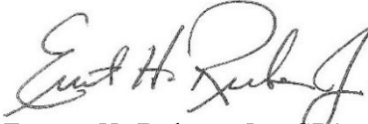
## City of Fruitland's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Fruitland's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The City of Fruitland's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

## Purpose of this Report

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

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



Ernest H. Ruben, Jr., CPA  
Deputy Auditor of State

March 28, 2023



City of Fruitland

Schedule of Findings

Year ended June 30, 2022

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

2022-001 Segregation of Duties

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

Condition – Generally, one or two individuals may have control over the following areas for which no compensating controls exist:

- (1) Cash – handling, depositing, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Long-term debt – recordkeeping and debt payment processing.

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

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

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

Response – We understand the lack of segregation of duties is a concern in a city of our size. We will work to implement procedures that will best mitigate the risks of having a small staff.

Conclusion – Response accepted.

2022-002 Bank Reconciliations

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by maintaining appropriate accounting records and reconciling bank and book balances. Independent review of bank reconciliations can help ensure the accuracy of recorded amounts.

City of Fruitland

Schedule of Findings

Year ended June 30, 2022

Condition – While a bank reconciliation is prepared through the Clerkbooks software each month, it is not a comprehensive bank reconciliation that reconciles the total of all bank accounts to the balance per the Treasurer’s Report. We attempted to reconcile the Treasurer’s Report with the total bank balances at June 30, 2022. At June 30, 2022, the bank balance total adjusted for outstanding checks is \$1,040,950, which is a variance of \$3,807 from the City’s recorded book balance of \$1,037,143. In addition, the monthly bank reconciliations are not reviewed by an independent person.

Cause – Procedures have not been designed and implemented to perform a comprehensive reconciliation of the bank to book balances and to ensure the monthly bank reconciliations are independently reviewed for completeness and accuracy.

Effect – The lack of a comprehensive reconciliation of bank to book balances and independent review of bank reconciliations can result in unrecorded transactions, undetected errors and the opportunity for misappropriation.

Recommendation – The City should establish procedures to ensure all bank account balances are reconciled to the Treasurer’s Report monthly and variances, if any are reviewed and resolved timely. An independent person should review the bank reconciliations and document their review by signing or initialing and dating the monthly reconciliations.

Response – The City will ensure a comprehensive reconciliation of all bank balances to the Treasurer’s Report will be performed moving forward. A council member will review and sign off on bank reconciliations moving forward.

Conclusion – Response accepted.

2022-003 Initial Receipts Listing

Criteria – An effective internal control system provides for internal control related to ensuring all collections are properly deposited. An initial listing of collections should be prepared and compared to the bank deposit and the accounting records by an independent person. Evidence of this review should be documented.

Condition – The City prepares a receipt book as its initial listing; however, an independent person does not reconcile the listing with the accounting records and there is no evidence of review.

Cause – Policies have not been established to have the initial listing reconciled to the bank deposits and accounting records by an independent person.

Effect – Receipts documented in the City’s accounting records could be incomplete.

Recommendation – The initial listing of collections should be reconciled to the accounting system and the bank deposits by an independent person and the reconciliation should be signed off to document the reconciliation.

City of Fruitland

Schedule of Findings

Year ended June 30, 2022

Response – We will establish a policy to have the initial listing preparer or Council member reconcile back to the receipt book and sign off once a week.

Conclusion – Response accepted.

2022-004 Personal Cell Phones

Criteria – Reimbursements to City employees should be made in accordance with policies and procedures established by the City.

Condition – During the year ended June 30, 2022, the City paid personal cell phone allowances totaling \$648 to two employees. Adequate supporting documentation was not retained in order to support the amount and authorization for the allowances. In addition, the City does not have a cell phone policy which includes details of who may be reimbursed for City use of a personal cell phone, proper usage, and the amount to be reimbursed.

Cause – Policies have not been established and procedures have not been designed and implemented regarding reimbursement for cell phone usage.

Effect – Lack of detailed supporting documentation and independent review for disbursements could result in unauthorized and unsupported transactions and the opportunity for misappropriation. Without policies and procedures, disbursements may be made which do not comply with City Council intentions.

Recommendation – If this practice is continued, the City should establish written policies and procedures for this type of reimbursement. The policy should include requirements for supporting documentation for the amount and authorization of the payments.

Response – We will speak with City Council on preparing a policy to address cell phone reimbursements.

Conclusion – Response accepted.

**INSTANCES OF NON-CODMPLIANCE:**

No matters were noted.

City of Fruitland

Schedule of Findings

Year ended June 30, 2022

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

2022-A Certified Budget – Disbursements during the year ended June 30, 2022 did not exceed the amounts budgeted.

2022-B Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

2022-C Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

2022-D Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Becca Shoppa, Clerk, Owner Mailboxes & Parcel Depot	Miscellaneous postage and shipping equipment	\$ 51

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the City Clerk does not appear to represent conflicts of interest since total transactions were less than \$6,000 during the fiscal year.

2022-E Restricted Donor Activity – No transactions were noted between the City, City officials, City employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

2022-F Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

2022-G City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

2022-H Depository Resolution – The City has adopted a depository resolution; however, it does not specify the maximum amount that may be kept at the depository as required by Chapter 12C of the Code of Iowa.

Recommendation – The City Council, by resolution, should specify the maximum amount that may be kept at the depository as required by Chapter 12C of the Code of Iowa.

Response – We will have City Council approve a limit and then approve a resolution.

Conclusion – Response accepted.

City of Fruitland

Schedule of Findings

Year ended June 30, 2022

2022-I Donation – During the fiscal year ended June 30, 2021, the City donated \$600 to Island Cemetery.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to private, non-profit corporations. Article III, Section 31 of the Constitution of the State of Iowa states “...no public money or property shall be appropriated for local or private purposes, unless such appropriation, compensation or claim be allowed by two-thirds of the members elected to each branch of the General Assembly.”

At least six official Iowa Attorney General Opinions since 1972 have consistently concluded that “a governmental body may not donate public funds to a private entity, even if the entity is established for charitable educational purposes and performs work which the government could perform directly.: The Opinions further state, “Even if the function of a private non-profit corporation fits within the scope of activities generally recognized as serving a public purpose, a critical question exists regarding whether funds or property transferred to a private entity will indeed be used for those public purposes.”

“Political subdivisions and municipalities, including cities, counties, schools and townships are municipal – governmental – entities. As governmental entities they are governed by elected bodies, are directly responsible to the public as a whole, and are subject to the limitations imposed on them by the state. Although a private organization may be formed to provide and support ‘public’ services which are the same or similar to the services provided by government, the private organizations are not subjected to the same degree of public accountability and oversight as governmental entities.”

Recommendation – We are not aware of any statutory authority for the City to donate public funds to private non-profit organizations. The City should immediately cease making future such donations.

Response – We will discuss with City Council potential resolutions to this issue.

Conclusion – Response accepted.

2022-J Payroll Fringe Benefits – City policy provides employees in the public works department a yearly clothing allowance of up to \$150 on a reimbursement basis. During the year ended June 30, 2022, a total of \$290 was reimbursed to two employees in the public works department. City disbursements for clothing considered adaptable to general use as ordinary clothing were not included in wages for employees in accordance with Internal Revenue Service (IRS) guidelines. These reimbursements were not processed through payroll and, accordingly, the proper tax withholdings were not applied to the reimbursements.

Recommendation – The City should begin processing the clothing reimbursements through payroll and apply the proper tax withholdings.

Response – We will begin reporting taxable fringe benefits on employees’ W-2s.

Conclusion – Response accepted.

City of Fruitland

Schedule of Findings

Year ended June 30, 2022

2022-K Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The image of the backs of each cancelled check was not obtained by the City.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We have spoken with the bank and are now receiving both fronts and backs of check images.

Conclusion – Response accepted.

2022-L Local Option Sales Tax (LOST) – The City’s LOST ballot in effect prior to November 1, 2017 required 20% of the revenues collected to be spent on sewer and water project. As of June 30, 2021, the balance of funds on hand restricted for sewer and water projects was \$60,926. During the year ended June 30, 2022, \$771 for electric repairs charged to the LOST fund portion restricted for sewer and water projects was not made in accordance with the LOST ballot restriction.

Recommendation – The City should establish procedures to ensure LOST receipts are being used in accordance with the LOST ballot.

Response – We will take the necessary steps to correct this issue by contacting legal counsel to properly account for LOST activities.

Conclusion – Response accepted.

City of Fruitland

Staff

This audit was performed by:

Ernest H. Ruben, Jr, CPA, Deputy  
Gwen D. Fangman, CPA, Manager  
David A. Slocum, CPA, Senior Auditor  
Jared M. Ernst, CPA, Staff Auditor