

CITY OF RADCLIFFE, IOWA

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor’s Report		2-3
Management’s Discussion and Analysis		4-9
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	10-11
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	12
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	13
Notes to Financial Statements		14-19
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		20-21
Notes to Required Supplementary Information – Budgetary Reporting		22
Other Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	23-24
Schedule of Indebtedness	2	25-26
Bond and Note Maturities	3	27-28
Schedule of Expenditures of Federal Awards	4	29
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 <u>Government Auditing Standards</u>		30-31

Table of Contents (continued)

	<u>Page</u>
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	32-33
Schedule of Findings and Questioned Costs	34-38

City of Radcliffe, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Richard Drake	Mayor	Jan 2006
David Beck	Council Member	Jan 2006
Brian Drake	Council Member	Jan 2006
Sarah Thompson	Council Member	Jan 2006
Brad Fjelland	Council Member	Jan 2008
Michael Garner	Council Member	Jan 2008
(After January 2006)		
Richard Drake	Mayor	Jan 2008
Brad Jjelland	Council Member	Jan 2008
Michael Garner	Council Member	Jan 2008
David Beck	Council Member	Jan 2010
Sarah Thompson	Council Member	Jan 2010
Bob Westendorf	Council Member	Jan 2010
Deb Benson	Clerk/Treasurer	Jan 2008
Tom Wynia	Attorney	Indefinite

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Radcliffe, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Radcliffe's 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 that our audit provides a reasonable basis for our opinions.

As described in Note 1, these 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. Also as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

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, 2005, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Radcliffe, Iowa as of June 30, 2006, 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 January 28, 2007 on our consideration of the City of Radcliffe's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 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 on pages 4 through 9 and 20 through 22 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Radcliffe's basic financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

June 28, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Radcliffe 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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

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

2006 Financial Highlights

- Receipts of the City of Radcliffe's governmental activities increased approximately \$99,000.00, from fiscal 2005 to fiscal 2006. Property tax increased approximately \$6,500.00.
- Disbursements of the City of Radcliffe's governmental activities increased approximately \$71,000.00, in fiscal 2006 from fiscal 2005. Community Economic Development disbursements increased \$139,000.
- The City's total cash basis net assets increased approximately \$125,200.00 from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately \$70,700.00 and the assets of business type activities increased by approximately \$54,500.00

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 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. 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 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. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal program benefiting the City.

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. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

The Statement of Activities and Net Assets 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 is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) 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 and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. 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 statement for governmental funds is a statement of cash receipts disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental activities.

<u>Changes in Cash Basis Net Assets of Governmental Activities</u>	
	<u>Year ended June 30, 2006</u>
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 106,452
Operating grants, contributions and restricted interest	145,910
General receipts:	
Property tax	126,588
Local option sales tax	45,683
Unrestricted interest on investments	8,770
Other general receipts	<u>49,145</u>
Total receipts	<u>482,548</u>
Disbursements:	
Public safety	74,508
Public works	59,913
Culture and recreation	50,718
Community and economic development	139,019
General government	57,656
Debt service	<u>30,154</u>
Total disbursements	<u>411,968</u>
Increase in cash basis net assets	70,580
Cash basis net assets beginning of year	<u>412,450</u>
Cash basis net assets end of year	483,030 =====

Changes in Cash Basis Net Assets of Business Type Activities

Year ended June 30, 2006

Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 56,711
Sewer	112,567
Capital grants, contributions and restricted interest	169,875
General receipts:	
Unrestricted interest on investments	5,184
Bond proceeds	575,739
Other general receipts	<u>1,164</u>
Total receipts	<u>921,240</u>
Disbursements and transfers:	
Water	57,721
Sewer	<u>808,923</u>
Total disbursements	<u>866,644</u>
Increase in cash basis net assets	54,596
Cash basis net assets beginning of year	<u>112,742</u>
Cash basis net assets end of year	167,338 =====

The total receipts and disbursements increased by \$575,000 and \$744,000 due to a sewer improvement project.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Radcliffe completed the year, its governmental funds reported a combined fund balance of \$483,030, an increase of more than \$70,000 above last year is total of \$412,450.

The General Fund cash balance increased approximately \$31,000. No one area or program was solely responsible for the increase.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Sewer Fund balance increased by \$53,536 to \$78,041, due primarily to an increase in sewer rates effective July 1, 2005. The increase was necessary to retire the indebtedness, operating and maintenance and reserve necessary for operating our expanded sanitary sewer facility.

BUDGETARY HIGHLIGHTS

The City of Radcliffe amended its budget one time during the year. The amendment was approved on May 8, 2006 to provide for additional disbursements primarily for the lagoon expansion, housing rehabilitation project and fire department vehicle. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2006, the City of Radcliffe had approximately \$1,099,592 in long term debt, compared to \$1,156,257 last year.

	<u>2006</u>	<u>2005</u>
General Obligation Bonds	\$ 120,149	143,016
Revenue Notes	779,512	230,241

The City's outstanding general obligation debt of \$120,149 is significantly below its constitutional debt limit of \$752,860.

NEXT YEAR'S BUDGET AND RATES

The adopted budget for fiscal year 2007 is basically the same as the budget for fiscal year 2006 with the exception of a grant for a new fire truck in the amount of \$166,250.

The City's budgeted cash balance is expected to decrease by approximately \$9,000 by the close of 2007.

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 of Radcliffe'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 Deb Benson, City Clerk, 310 Isabella, Radcliffe, Iowa 50230.

Basic Financial Statements

City of Radcliffe, Iowa

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Radcliffe is a political subdivision of the State of Iowa located in Hardin County. It was first incorporated in 1880 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Radcliffe 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 a jointly governed organization that provides goods or services to the citizenry of the City but does 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 board: Hardin County Joint E911 Service Board, Hardin County Community Development and Hardin County Solid Waste.

City of Radcliffe, Iowa

Notes to Financial Statements

June 30, 2006

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets 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. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City’s 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 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 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 and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental or enterprise funds.

City of Radcliffe, Iowa

Notes to Financial Statements

June 30, 2006

The City reports the following major governmental fund:

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.

The City reports the following major proprietary fund:

water The Sewer Fund accounts for the operation and maintenance of the City's waste treatment and sanitary sewer systems.

C. Measurement Focus and Basis of Accounting

The City of Radcliffe 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 assets 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.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

City of Radcliffe, Iowa

Notes to Financial Statements

June 30, 2006

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety function.

(2) **Cash**

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

There were no investments at June 30, 2006. During the year, the City invested its excess funds in certificates of deposit and money market savings accounts.

City of Radcliffe, Iowa

Notes to Financial Statements

June 30, 2006

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes and revenue bonds are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 30,298	7,054	35,199	30,149	65,497	37,203
2008	13,993	5,458	36,512	28,937	50,505	34,395
2009	13,743	4,727	37,842	27,676	51,585	32,403
2010	8,402	4,011	39,193	26,365	47,595	30,376
2011	8,821	3,591	40,564	25,004	49,385	28,595
2012-2016	51,183	10,881	224,223	102,718	275,406	113,599
2017-2021	11,862	597	261,558	60,021	273,420	60,618
2022-2026	---	---	70,243	23,388	70,243	23,388
2027-2028	---	---	34,178	3,274	34,178	3,274
Total	\$ 138,302	36,319	779,512	327,532	917,814	363,851

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (A) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (B) The waste water treatment system shall maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond.

City of Radcliffe, Iowa

Notes to Financial Statements

June 30, 2006

(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 salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2006, was \$3,554, equal to the required contribution for the year.

(5) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disaster. 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.

(6) Construction Commitment

The City is in the process of constructing waste water improvements for a total cost of approximately \$1.25 million. As of June 30, 2006, \$829,000 has been spent on this project, leaving a balance of \$196,000.

Required Supplementary Information

City of Radcliffe, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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 and Fiduciary Funds. 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 Funds 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 increased receipts by \$466,147, disbursements by \$1,258,960 and other financing sources by \$800,000.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety functions.

Other Supplementary Information

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 the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Radcliffe, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated June 28, 2007. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 Radcliffe's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 Radcliffe's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable 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 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 item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Radcliffe's 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 described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 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 interpretation 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 Radcliffe and other parties to whom the City of Radcliffe 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 Radcliffe 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.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

June 28, 2007

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
In Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Radcliffe, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2006. The City of Radcliffe's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Radcliffe's management. Our responsibility is to express an opinion on the City of Radcliffe's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Radcliffe's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Radcliffe's compliance with those requirements.

In our opinion, the City of Radcliffe complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Radcliffe is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Radcliffe's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Radcliffe's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable 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 non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program 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 compliance 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 item III-A-06 is a material weakness.

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 Radcliffe and other parties to whom the City of Radcliffe 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.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

June 28, 2007

City of Radcliffe, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which 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.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major program was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 14.228 – Community Development Block Grants/State's Program and CFDA Number 66.458 – Capitalization Grants for Clean Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Radcliffe did not qualify as a low-risk auditee.

City of Radcliffe, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties - During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent loss from employee error or dishonesty and therefore maximizes the accuracy of the City's financial statements. We noted that one employee handles almost all of the financial duties, including reconciling accounts and recording financial data.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. Therefore, we recommend the Council maintain its diligence in the review of the financial records.

Response and Corrective Action Planned - We will continue our review.

Conclusion - Response accepted.

City of Radcliffe, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

**CFDA Number 14.228: Community Development Block Grants/State's Program
Pass-through Agency Number: 05-HSG-09, 03-WS-012
Federal Award Year: 2006
Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development**

**CFDA Number 66.458: State Revolving Fund
Federal Award Year: 2006
Environmental Protection Agency
Passed through the Iowa Department of Natural Resources**

III-A-06 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-06.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public safety function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

City of Radcliffe, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Response – The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

IV-B-06 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

IV-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-06 Business Transactions – Business transactions between the City and City officials are detailed as follows:

The City of Radcliffe purchases its commercial insurance from EMC Insurance of which Brian Drake, council member, is the agent. Total premiums paid for this coverage was \$13,287 for the year ended June 30, 2006. This does not appear to be a conflict of interest as insurance is a service and falls outside the items that are normally bid on.

IV-E-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that the coverage is adequate for current operations.

IV-F-06 Council Minutes – Out of the twenty disbursements tested, we found one disbursement that was not approved in the council minutes this year.

Recommendation – The City should review their procedures to make sure all bills get published.

Response – This was an oversight this year. Normally all bills are published in the paper.

Conclusion – Response accepted.

City of Radcliffe, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

IV-G-06 Deposits and Investments – City officials could not locate a copy of their current investment policy. It was noted that the City’s investments were in accordance with Chapter 12B and 12C of the Code of Iowa.

Recommendation – City officials should prepare a new investment policy.

Response – We will do this.

Conclusion – Response accepted.

IV-H-06 Revenue Bonds – The City has complied with the revenue bond resolutions.

IV-I-06 Local Option Sales Tax –It was noted during the course of our audit that the
Local

Option Sales Tax Revenue was recorded in the General Fund.

Recommendation – Proceeds from the Local Option Sales Tax Revenue should be recorded in a special revenue fund in accordance with the uniform chart of accounts for Iowa city governments. This will also help City officials determine if the proceeds are expended in accordance with the City’s election.

Response – We will do this with the next fiscal year.

Conclusion – Response accepted.

IV-J-06 Volunteer Fire Department – The City of Radcliffe has a volunteer fire department whose receipts and disbursements are included with this audit report.

Recommendation – City officials should have their City attorney review Chapter 384 of the Code of Iowa and Article III, Section 31 of the Iowa constitution to ensure that the City’s responsibilities are met in regards to financial reporting budgeting and expending monies only for purpose.

Response – We will do this.

Conclusion – Response accepted.