

City of Rock Valley, Iowa
Independent Auditor's Reports
Basic Financial Statements and Supplementary Information
Schedule of Findings And Questioned Costs
June 30, 2007

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**City of Rock Valley, Iowa
Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kent Eknes	Mayor	Jan. 2008
Gerold Burgers	Mayor Pro-Tem	Jan. 2008
Dale Kooima	Council Member	Jan. 2009
Mark McGill	Council Member	Jan. 2008
Kevin Van Otterloo	Council Member	Jan. 2009
Chad Van Zee	Council Member	Jan. 2009
Tom Van Maanen	City Administrator/Treasurer	Indefinite
Judy Van't Hul	City Clerk	Indefinite
Maureen McGill Hoogeveen	City Attorney	Indefinite

City of Rock Valley, Iowa

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 Rock Valley, Iowa, as of and for the year ended June 30, 2007, 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 Rock Valley'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Rock Valley as of June 30, 2007, 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 November 26, 2007 on our consideration of the City of Rock Valley'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 7 through 13 and 38 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rock Valley's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic 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.

Van Bruggen & Vande Vegte, P.C.

November 26, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Rock Valley 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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 3%, or approximately \$112,000, from fiscal 2006 to fiscal 2007. Property tax decreased approximately \$8,000, tax incremental financing collections increased by \$189,000 and there were bond and note proceeds issued of \$850,000.
- Disbursements of the City's governmental activities decreased 6%, or approximately \$244,000, in fiscal 2007 from fiscal 2006. General government, debt service and community and economic development disbursements increased approximately \$46,000, \$277,000 and \$236,000, respectively, while capital projects disbursements decreased approximately \$758,000.
- The City's total cash basis net assets increased 38%, or approximately \$261,000, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased approximately \$306,000 and the assets of the business type activities decreased by approximately \$45,000.

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 date 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.

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, garbage collection 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 statements for governmental funds include 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 three Enterprise Funds to provide separate information for water, sewer and garbage 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 statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City’s cash balance for governmental activities increased from a year ago, increasing from \$333 thousand to \$639 thousand. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
(Expressed in Thousands)		
	Year Ended June 30,	
	2007	2006
Receipts:		
Program receipts		
Charges for service	\$ 423	\$ 327
Operating grants, contributions and restricted interest	279	295
Capital grants, contributions and restricted interest	3	487
General receipts:		
Property tax	1,557	1,377
Local option sales tax	247	232
Grants and contributions not restricted to specific purposes	-	-
Unrestricted interest on investments	49	31
Bond proceeds	850	800
Other general receipts	364	111
Total receipts	<u>\$ 3,772</u>	<u>\$ 3,660</u>
Disbursements:		
Public safety	\$ 491	\$ 421
Public works	179	247
Health and social services	-	-
Culture and recreation	426	473
Community and economic development	747	511
General government	342	296
Debt service	696	419
Capital projects	625	1,383
Total disbursements	<u>\$ 3,506</u>	<u>\$ 3,750</u>
Change in cash basis net assets before transfers	\$ 266	\$ (90)
Transfers, net	<u>40</u>	<u>-</u>
Change in cash basis net assets	\$ 306	\$ (90)
Cash basis net assets beginning of year	<u>333</u>	<u>423</u>
Cash basis net assets end of year	<u>\$ 639</u>	<u>\$ 333</u>

The City's total receipts for governmental activities increased 3%, or approximately \$112,000. The total cost of all programs and services decreased by approximately \$244,000, or 6%, with no new programs added this year.

The City decreased property tax rates for 2007 by an average of 4.04 percent. This decrease and more importantly the increase in housing, commercial and industrial development lowered the City's property tax receipts by approximately \$8,000 in 2007 but raised the City's tax increment financing collections by \$189,000. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase next year.

The cost of all governmental activities this year was \$3.506 million compared to \$3.750 million last year. However, as shown in the Statement of Activities and Net Assets on pages 16-19, the amount taxpayers ultimately financed for these activities was only \$2.801 million because some of the cost was paid by those directly benefited from the programs (\$423,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$282,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2007 from approximately \$1,109,000 to approximately \$705,000, principally due to capital project receipts. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$2,801,000 in tax (some of which could only be used for certain programs) and other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities		
(Expressed in Thousands)		
	Year Ended June 30,	
	2007	2006
Receipts:		
Program receipts		
Charge for service		
Water	\$ 471	\$ 470
Sewer	376	331
Garbage	159	141
Capital grants, contributions and restricted interest	-	-
General Receipts		
Unrestricted interest on investments	-	-
Bond proceeds	-	-
Other general receipts	-	-
Total receipts	<u>\$ 1,006</u>	<u>\$ 942</u>
Disbursements and transfers:		
Water	\$ 478	\$ 483
Sewer	385	306
Garbage	148	132
Total disbursements	<u>\$ 1,011</u>	<u>\$ 921</u>
Change in cash basis net assets before transfers	\$ (5)	\$ 21
Transfers, net	<u>(40)</u>	<u>-</u>
Change in cash basis net assets	\$ (45)	\$ 21
Cash basis net assets beginning of year	<u>363</u>	<u>342</u>
Cash basis net assets end of year	<u>\$ 318</u>	<u>\$ 363</u>

Total business type activities receipts for the fiscal year were \$1,006 thousand compared to \$942 thousand last year. This increase was due primarily to the service fee rates. The cash balance decreased by approximately \$45,000 from the prior year. Total disbursements and transfers for the fiscal year increased by 14% to a total of \$1,051 thousand.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Rock Valley completed the year, its governmental funds reported a combined fund balance of \$639,362, an increase of more than \$306,803 above last year's total of \$332,559. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$38,336 from the prior year to \$132,418.
- The Special Revenue Road Use Tax Fund cash balance increased by \$47,768 to \$194,077 during the fiscal year.
- The Urban Renewal Tax Increment Fund and TIF Fund were established in a previous fiscal year to account for major urban renewal projects within the City. At the end of the fiscal year, the cash balance was \$118,701, an increase of \$32,738 from the previous year.
- The Debt Service Fund cash balance decreased by \$128,875 to \$40,456 during the fiscal year. This decrease was due to a slight decrease in property tax. Bond principal and interest payments increased by \$277,487 in fiscal 2007.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$17,115 to \$80,478, due primarily to an increase in the cost of operations and transfers out.
- The Sewer Fund cash balance decreased by \$19,356 to \$228,653, due primarily to the increase of service rate fees and the number of customers serviced and transfers out.
- The Garbage Fund cash balance decreased by \$8,930 to \$8,402, due primarily to rate increases and the number of customers serviced and transfers out.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget. The amendment was approved on May 30, 2007 and resulted in an increase in operating revenues due to bond issuance and transfers. Expenditures increased due to capital projects and repayment of bonds.

The City's receipts were \$6,800 less than the amended budget.

The City's disbursements were \$159,231 less than the amended budget.

DEBT ADMINISTRATION

At June 30, 2007, the City had approximately \$3,758,480 in bonds and other long-term debt, compared to approximately \$3,351,606 last year, as shown below.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	Year Ended June 30,	
	2007	2006
General obligation bonds and notes	\$ 3,718.5	\$ 3,291.6
Special assessment bonds and notes	-	-
Urban renewal tax increment financing revenue bonds	40	60
Revenue notes	-	-
Anticipatory warrants	-	-
Total receipts	\$ 3,758.5	\$ 3,351.6

Debt increased as a result of general obligation bonds and notes being issued in the past year. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$3,758.5 is below its constitutional debt limit of \$7.2 million.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The City of Rock Valley’s elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates, and fees charged for various City activities. One of those factors is the economy. The City’s employment growth has mirrored its population growth during 2001-2006, which saw the City grow by 4.2 percent from a population of 2,702 to 2,816.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State’s CPI increase was 3.2 percent for fiscal year 2007 compared with the national rate of 3.4%. Inflation has been modest here due, in part, to the slowing of the residential housing market and increases in energy prices in 2007.

These indicators were taken into account when adopting the budget for fiscal year 2008. Amounts available for appropriation in the operating budget are \$6.806 million, an increase of 41% over the final 2007 budget. Property tax (benefiting from the 2007 rate increases and increases in assessed valuations) and proceeds from the urban renewal tax increment financing revenue bonds are expected to lead this increase. The City will use these increases in receipts to finance programs we currently offer and to defray a portion of the costs of carrying out a major urban renewal project of the City. Budgeted disbursements are expected to rise by approximately \$2,690,186. Increased wage and cost-of-living adjustments, increases in street construction and maintenance and the urban renewal project represent the largest increases. The City has added water project and waste water treatment.

If these estimates are realized, the City’s budgeted cash balance is expected to increase slightly by the close of 2008.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Judy Van't Hul, City Clerk, 1507 Main Street, Rock Valley, Iowa 51247.

City of Rock Valley, Iowa

Basic Financial Statements

City of Rock Valley, Iowa
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2007

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 490,967	\$ 98,957	\$ -	\$ -
Public works	178,929	-	225,198	-
Health and social services	-	7,680	-	-
Culture and recreation	425,848	63,985	-	2,500
Community and economic development	746,409	238,640	26,090	-
General government	341,847	13,378	28,170	-
Debt service	695,899	-	-	-
Capital projects	<u>625,366</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$3,505,265</u>	<u>\$ 422,640</u>	<u>\$ 279,458</u>	<u>\$ 2,500</u>
Business type activities:				
Water	\$ 478,512	\$ 471,397	\$ -	\$ -
Sewer	385,421	376,065	-	-
Garbage	<u>147,620</u>	<u>158,690</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$1,011,553</u>	<u>\$1,006,152</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u><u>\$4,516,818</u></u>	<u><u>\$1,428,792</u></u>	<u><u>\$ 279,458</u></u>	<u><u>\$ 2,500</u></u>
General Receipts:				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Grants and contributions not restricted to specific purposes				
Unrestricted interest on investments				
Bond and loan proceeds				

(Continued on page 17)

City of Rock Valley, Iowa
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2007

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (392,010)	\$ -	\$ (392,010)
46,269	-	46,269
7,680	-	7,680
(359,363)	-	(359,363)
(481,679)	-	(481,679)
(300,299)	-	(300,299)
(695,899)	-	(695,899)
<u>(625,366)</u>	<u>-</u>	<u>(625,366)</u>
<u>\$ (2,800,667)</u>	<u>\$ -</u>	<u>\$ (2,800,667)</u>
\$ -	\$ (7,115)	\$ (7,115)
-	(9,356)	(9,356)
-	11,070	11,070
<u>\$ -</u>	<u>\$ (5,401)</u>	<u>\$ (5,401)</u>
<u>\$ (2,800,667)</u>	<u>\$ (5,401)</u>	<u>\$ (2,806,068)</u>
\$ 516,737	\$ -	\$ 516,737
927,644	-	927,644
112,474	-	112,474
247,185	-	247,185
-	-	-
49,067	-	49,067
850,000	-	850,000

(Continued on page 18)

(Continued from page 16)

City of Rock Valley, Iowa
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2007

	Program Receipts		
Disbursements	Charges for Service	Operating Grants, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Miscellaneous			
Sale of assets			
Transfers			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
Cash Basis Net Assets			
Restricted:			
Streets			
Urban renewal purposes			
Debt service			
Other purposes			
Unrestricted			
Total cash basis net assets			

See notes to financial statements.

(Continued from page 17)

Exhibit A

City of Rock Valley, Iowa
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2007

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
363,283	-	363,283
1,080	-	1,080
<u>40,000</u>	<u>(40,000)</u>	<u>-</u>
\$ 3,107,470	\$ (40,000)	\$3,067,470
\$ 306,803	\$ (45,401)	\$ 261,402
<u>332,559</u>	<u>362,934</u>	<u>695,493</u>
\$ 639,362	\$ 317,533	\$ 956,895
=====	=====	=====
\$ 194,077	\$ -	\$ 194,077
(140,642)	-	(140,642)
40,456	-	40,456
515,313	-	515,313
<u>30,158</u>	<u>317,533</u>	<u>347,691</u>
\$ 639,362	\$ 317,533	\$ 956,895
=====	=====	=====

City of Rock Valley, Iowa
Statement of Cash Receipts, Disbursements
And Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2007

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 389,319	\$ -	\$ 13,388
Tax increment financing collections	-	-	-
Other city tax	3,437	-	-
Licenses and permits	3,720	-	-
Use of money and property	62,445	-	-
Intergovernmental	28,170	225,198	-
Charges for service	94,323	-	-
Special assessments	-	-	-
Miscellaneous	415,193	-	-
Total receipts	<u>\$ 996,607</u>	<u>\$ 225,198</u>	<u>\$ 13,388</u>
Disbursements:			
Operating:			
Public safety	\$ 391,611	\$ -	\$ -
Public works	-	177,430	-
Health and social services	-	-	-
Culture and recreation	400,933	-	-
Community and economic development	26,630	-	23,797
General government	304,097	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>\$ 1,123,271</u>	<u>\$ 177,430</u>	<u>\$ 23,797</u>
Excess of receipts over disbursements	<u>\$ (126,664)</u>	<u>\$ 47,768</u>	<u>\$ (10,409)</u>
Other financing sources (uses):			
Bond and loan proceeds	\$ -	\$ -	\$ -
Sale of capital assets	-	-	-
Operating transfers in	165,000	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>\$ 165,000</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued on page 21)

TIF Fund	Debt Service	Capital Projects	Nonmajor	Total
\$ -	\$ 112,475	\$ -	\$ 110,593	\$ 625,775
927,644	-	-	-	927,644
-	-	-	247,185	250,622
-	-	-	-	3,720
-	-	-	-	62,445
-	-	-	-	253,368
-	-	-	-	94,323
-	-	33,803	-	33,803
19,898	-	58,818	176,459	670,368
<u>\$ 947,542</u>	<u>\$ 112,475</u>	<u>\$ 92,621</u>	<u>\$ 534,237</u>	<u>\$ 2,922,068</u>
\$ -	\$ -	\$ -	\$ 99,356	\$ 490,967
-	-	-	1,499	178,929
-	-	-	-	-
-	-	-	24,915	425,848
395,889	-	-	300,093	746,409
-	-	-	37,750	341,847
-	695,899	-	-	695,899
-	-	625,366	-	625,366
<u>\$ 395,889</u>	<u>\$ 695,899</u>	<u>\$ 625,366</u>	<u>\$ 463,613</u>	<u>\$ 3,505,265</u>
<u>\$ 551,653</u>	<u>\$ (583,424)</u>	<u>\$ (532,745)</u>	<u>\$ 70,624</u>	<u>\$ (583,197)</u>
\$ -	\$ 850,000	\$ -	\$ -	\$ 850,000
-	-	-	-	-
-	454,549	850,000	239,244	1,708,793
<u>(508,506)</u>	<u>(850,000)</u>	<u>(157,794)</u>	<u>(152,493)</u>	<u>(1,668,793)</u>
<u>\$ (508,506)</u>	<u>\$ 454,549</u>	<u>\$ 692,206</u>	<u>\$ 86,751</u>	<u>\$ 890,000</u>

(Continued on page 22)

(Continued from page 20)

City of Rock Valley, Iowa
Statement of Cash Receipts, Disbursements
And Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2007

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
Net change in cash balances	\$ 38,336	\$ 47,768	\$ (10,409)
Cash balances beginning of year	<u>94,082</u>	<u>146,309</u>	<u>(130,233)</u>
Cash balances end of year	\$ 132,418	\$ 194,077	\$ (140,642)
	<u>=====</u>	<u>=====</u>	<u>=====</u>
Cash Basis Fund Balances			
Reserved for Debt Service	\$ -	\$ -	\$ -
Unreserved:			
General fund	132,418	-	-
Special revenue funds	-	194,077	(140,642)
Capital projects fund	-	-	-
Permanent fund	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	\$ 132,418	\$ 194,077	\$ (140,642)
	<u>=====</u>	<u>=====</u>	<u>=====</u>

See notes to financial statements.

(Continued from page 21)

Exhibit B

<u>TIF Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
\$ 43,147	\$ (128,875)	\$ 159,461	\$ 157,375	\$ 306,803
<u>216,196</u>	<u>169,331</u>	<u>(196,520)</u>	<u>33,394</u>	<u>332,559</u>
<u>\$ 259,343</u>	<u>\$ 40,456</u>	<u>\$ (37,059)</u>	<u>\$ 190,769</u>	<u>\$ 639,362</u>
\$ -	\$ 40,456	\$ -	\$ -	\$ 40,456
-	-	-	-	132,418
259,343	-	-	190,769	503,547
-	-	(37,059)	-	(37,059)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 259,343</u>	<u>\$ 40,456</u>	<u>\$ (37,059)</u>	<u>\$ 190,769</u>	<u>\$ 639,362</u>

City of Rock Valley, Iowa

City of Rock Valley, Iowa
Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets –
Governmental Funds
As of and for the year ended June 30, 2007

Total governmental funds cash balances (page 23)	<u>\$ 639,362</u>
Cash basis net assets of governmental activities (page 19)	<u>\$ 639,362</u>
Net change in cash balances (page 23)	<u>\$ 306,803</u>
Change in cash balances net assets of governmental activities (page 19)	<u>\$ 306,803</u>

See notes to financial statements.

City of Rock Valley, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

Exhibit D

As of and for the year ended June 30, 2007

	Enterprise Funds			
	Water	Sewer	Garbage	Total
Operating Receipts:				
Use of money and property	\$ -	\$ -	\$ -	\$ -
Charges for service	439,244	371,947	158,690	969,881
Miscellaneous	<u>32,153</u>	<u>4,118</u>	<u>-</u>	<u>36,271</u>
Total operating receipts	<u>\$ 471,397</u>	<u>\$ 376,065</u>	<u>\$ 158,690</u>	<u>\$ 1,006,152</u>
Operating disbursements:				
Governmental activities:				
Public safety	\$ -	\$ -	\$ -	\$ -
Public works	-	-	-	-
Culture and recreation	-	-	-	-
General government	-	-	-	-
Business type activities	<u>478,512</u>	<u>385,421</u>	<u>147,620</u>	<u>1,011,553</u>
Total operating disbursements	<u>\$ 478,512</u>	<u>\$ 385,421</u>	<u>\$ 147,620</u>	<u>\$ 1,011,553</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ (7,115)</u>	<u>\$ (9,356)</u>	<u>\$ 11,070</u>	<u>\$ (5,401)</u>
Non-operating receipts (disbursements):				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Interest on investments	-	-	-	-
Miscellaneous	-	-	-	-
General obligation bond proceeds	-	-	-	-
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-operating receipts (disbursements)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (7,115)</u>	<u>\$ (9,356)</u>	<u>\$ 11,070</u>	<u>\$ (5,401)</u>
Operating transfers in	\$ -	\$ -	\$ -	\$ -
Operating transfers out	<u>(10,000)</u>	<u>(10,000)</u>	<u>(20,000)</u>	<u>(40,000)</u>
Total other financing sources (uses)	<u>\$ (10,000)</u>	<u>\$ (10,000)</u>	<u>\$ (20,000)</u>	<u>\$ (40,000)</u>
Net change in cash balances	<u>\$ (17,115)</u>	<u>\$ (19,356)</u>	<u>\$ (8,930)</u>	<u>\$ (45,401)</u>
Cash balances beginning of year	<u>97,593</u>	<u>248,009</u>	<u>17,332</u>	<u>362,934</u>
Cash balances end of year	<u>\$ 80,478</u>	<u>\$ 228,653</u>	<u>\$ 8,402</u>	<u>\$ 317,533</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ -	\$ -	\$ -	\$ -
Unreserved	<u>80,478</u>	<u>228,653</u>	<u>8,402</u>	<u>317,533</u>
Total cash basis fund balances	<u>\$ 80,478</u>	<u>\$ 228,653</u>	<u>\$ 8,402</u>	<u>\$ 317,533</u>

See notes to financial statements.

City of Rock Valley, Iowa
Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets –
Proprietary Funds
As of and for the year ended June 30, 2007

Total enterprise funds cash balances (page 26)	\$ <u>317,533</u>
Cash basis net assets of business type activities (page 19)	\$ <u>317,533</u> =====
Net change in cash balances (page 26)	\$ <u>(45,401)</u>
Change in cash balances net assets of business type activities (page 19)	\$ <u>(45,401)</u> =====

See notes to financial statements.

City of Rock Valley, Iowa
Notes to Financial Statements
June 30, 2007

(1) Summary of Significant Accounting Policies

The City of Rock Valley is a political subdivision of the State of Iowa located in Sioux County. It was first incorporated in 1879 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 utilities and garbage collection for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Rock Valley 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 included the Rock Valley Ambulance and Fire Department 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 and commissions: Rock Valley Economic Development Corporation, Northwest Iowa Landfill, Sioux County Revolving Loan Fund and Summer Recreation.

B. Basis of Presentation

Government-wide Financial Statements – 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.

City of Rock Valley, Iowa
Notes to Financial Statements
June 30, 2007

B. Basis of Presentation (continued)

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 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 funds.

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

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

City of Rock Valley, Iowa
Notes to Financial Statements
June 30, 2007

B. Basis of Presentation (continued)

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

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

The Garbage Fund accounts for the operation and maintenance of the City's garbage collection system.

C. Measurement Focus and Basis of Accounting

The City of Rock Valley 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.

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.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public safety, community and economic development, general government, debt service, and business type activities.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 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.

City of Rock Valley, Iowa
Notes to Financial Statements
June 30, 2007

(2) Cash and Pooled Investments (continued)

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.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 518,926	\$ 135,621	\$ 20,000	\$ 2,200	\$ 538,926	\$ 137,821
2009	448,526	119,419	20,000	1,110	468,526	120,529
2010	468,528	105,102	0	0	468,528	105,102
2011	465,000	89,224	0	0	465,000	89,224
2012	465,000	71,834	0	0	465,000	71,834
2013 – 2017	1,352,500	120,712	0	0	1,352,500	120,712
2018 – 2022	0	0	0	0	0	0
Total	\$ 3,718,480	\$ 641,912	\$ 40,000	\$ 3,310	\$ 3,758,480	\$ 645,222

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

City of Rock Valley, Iowa
Notes to Financial Statements
June 30, 2007

(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. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$39,642, \$35,912, and \$34,233, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 52,001
Sick Leave	<u>82,695</u>
Total	\$ 134,696 <u>=====</u>

This liability has been computed based on rates of pay in effect as of June 30, 2007.

(6) Landfill Contract

The City of Rock Valley has contracted for solid waste disposal for all households or residences within the City. For the year ended June 30, 2007, \$140,952 was paid pursuant to the agreement.

City of Rock Valley, Iowa
Notes to Financial Statements
June 30, 2007

(6) Landfill Contract (continued)

The contract began January 1, 2006, and will terminate December 31, 2007. The agreement calls for the city to remit to the solid waste removal contractor the fees collected less thirty-five cents (.35) per monthly charge, which the City retains as a collection and handling fee. The contract allows for the solid waste removal contractor the opportunity to request an increase in rates semi-annually during the months of June and December. The City has the sole power to amend the monthly rates.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Enterprise Fund	
	Water	\$ 10,000
	Sewer	10,000
	Garbage	20,000
	Special Revenue:	
	TIF	125,000
Debt Service Fund	Special Revenue:	
	TIF	383,506
	Local Option Sales Tax	71,043
Capital Projects:	Debt Service Fund	
Campground		270,000
Southern Hills Phase III		380,000
Westview West		200,000
Local Housing Assistance Program	Special Revenue:	
	Local Option Sales Tax	46,450
	Capital Projects	
	Dykstra Development	57,004
	19 th Avenue	3,120
	Southern Hills Phase II	18,000
	Riverview Addition	30,035
	8 th Avenue Imp.	32,885
	Greenway Addition	16,750
Special Revenue:	Special Revenue:	
Employee Benefits	Local Option Sales Tax	35,000
Total		\$ 1,708,793
		=====

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources. -33-

City of Rock Valley, Iowa
Notes to Financial Statements
June 30, 2007

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$357,819 during the year ended June 30, 2007.

(9) Lease Agreements

The City of Rock Valley (lessee) on November 12, 1999 entered into a nonmaintenance lease agreement with Peoples Bank, Rock Valley, Iowa (lessor) for the use of a 2000 Sterling Truck with Amtech Rescue Body. The lessor grants to the City of Rock Valley the option to renew the lease agreement on an annual basis for a period of ten (10) years at an annual amount of \$12,231. The renewal option places no obligation or duty upon the City to renew the lease agreement.

The City of Rock Valley (lessee) on June 29, 2005 entered into a nonmaintenance lease agreement with Peoples Bank, Rock Valley, Iowa (lessor) for the use of a 2005 Lifeline Ford Ambulance. The lessor grants to the City of Rock Valley the option to renew the lease agreement on an annual basis for a period of ten (10) years at an annual amount of \$8,515. The renewal option places no obligation or duty upon the City to renew the lease agreement.

The aggregate rental expense for the year ended June 30, 2007, is \$20,746.

(10) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are 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. The City is exposed to an employee group medical insurance risk of the difference between a deductible of \$1,000 per insured and the fringe benefit of \$100 per employee with an estimated total risk of \$15,795.

City of Rock Valley, Iowa
Notes to Financial Statements
June 30, 2007

(11) Deficit Fund Balance

The Special Revenue Fund - Urban Renewal Tax Increment, Local Housing Assistance Program and Fire Fighting Equipment, Capital Project Fund – Campground Project, and 12th Street Phase II had deficit balances of \$140,642, \$12,933, \$83,605, \$391,458, and \$304,620 respectively, at June 30, 2007. The deficit balance was a result of transfers and project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of transfers, street assessments and state grants.

(12) Subsequent Events

In September, 2007, the City issued \$1,500,000 of general obligation capital loan notes. The City has approved capital contracts totaling \$2,568,688 subsequent to June 30, 2007. The City has also received notification that it has been awarded \$486,000 from the Community Attraction and Tourism Grant.

(13) Community Economic Betterment Loans (CEBA)

The City of Rock Valley (loan recipient) on April 20, 2000, entered into a Community Economic Betterment two (2) percent loan for \$75,000 with the Department of Economic Development of the State of Iowa maturing November 1, 2006. The City of Rock Valley (Lender) then entered into a two (2) percent loan agreement with Kooima Company (Borrower) with the CEBA loan amount of \$75,000, maturing November 1, 2006.

The City of Rock Valley (loan recipient) on March 21, 2002, entered into a Community Economic Betterment Forgivable Loan for \$212,500 and an Interest Free Loan for \$212,500 with the Department of Economic Development of the State of Iowa maturing March 21, 2007. The City of Rock Valley (Lender) then entered into a forgivable loan agreement and an interest free loan agreement with Total Component Solutions Corporation (Borrower) with the CEBA loan amounts of \$212,500 each, maturing March 21, 2007.

The City of Rock Valley (loan recipient) on September 21, 2006, entered into a Community Development Block Forgivable Loan for \$40,000. The City of Rock Valley (Lender) then entered into a forgivable loan agreement with Quality Machine Products, Inc. (Borrower) with the loan amount of \$40,000.

City of Rock Valley, Iowa
Notes to Financial Statements
June 30, 2007

(13) Community Economic Betterment Loan (CEBA) (continued)

The City of Rock Valley (loan recipient) on May 16, 2002, entered into a Community Economic Betterment Interest Free Loan for \$37,500 with the Department of Economic Development of the State of Iowa maturing May 16, 2007. The City of Rock Valley (Lender) then entered into an interest free loan agreement with Poly-Tin, Inc. (Borrower) with the CEBA loan amounts of \$37,500, maturing May 16, 2007.

The City of Rock Valley (loan recipient) on May 16, 2002, entered into a Community Economic Betterment Forgivable Loan of \$7,500 and an Interest Free Loan for \$30,000 with the Department of Economic Development of the State of Iowa maturing May 16, 2007. The City of Rock Valley (Lender) then entered into a forgivable loan agreement and an interest free loan agreement with Valley Industrial Powder Coating, Inc. (Borrower) with the CEBA loan amounts of \$7,500 and \$30,000, respectively, maturing May 16, 2007.

(14) Litigation

The City is subject to pending litigation seeking compensatory damages due to age discrimination. The probability of loss, if any, is undeterminable.

Required Supplementary Information

City of Rock Valley, Iowa
Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year Ended June 30, 2007

	Governmental		Proprietary Funds Total
	Funds Actual	Funds Actual	
Receipts:			
Property tax	\$ 625,775	\$ -	\$ 625,775
Tax increment financing collections	927,644	-	927,644
Other city tax	250,622	-	250,622
Licenses and permits	3,720	-	3,720
Use of money and property	62,445	-	62,445
Intergovernmental	253,368	969,881	1,223,249
Charges for service	94,323	36,271	130,594
Special assessments	33,803	-	33,803
Miscellaneous	670,368	-	670,368
Total receipts	<u>\$2,922,068</u>	<u>\$ 1,006,152</u>	<u>\$3,928,220</u>
Disbursements:			
Public safety	\$ 490,967	\$ -	\$ 490,967
Public works	178,929	-	178,929
Health and social services	-	-	-
Culture and recreation	425,848	-	425,848
Community and economic development	746,409	-	746,409
General government	341,847	-	341,847
Debt service	695,899	-	695,899
Capital projects	625,366	-	625,366
Business type activities	-	1,011,553	1,011,553
Total disbursements	<u>\$3,505,265</u>	<u>\$ 1,011,553</u>	<u>\$4,516,818</u>
Excess of receipts over disbursements	\$ (583,197)	\$ (5,401)	\$ (588,598)
Transfers	40,000	(40,000)	-
Other financing sources, net	<u>850,000</u>	<u>-</u>	<u>850,000</u>
Excess of receipts and other financing sources over disbursements and other financing uses	\$ 306,803	\$ (45,401)	\$ 261,402
Balance - beginning of year	<u>332,559</u>	<u>362,934</u>	<u>695,493</u>
Balance - end of year	<u>\$ 639,362</u>	<u>\$ 317,533</u>	<u>\$ 956,895</u>

See accompanying independent auditor's report.

<u>Budgeted Amounts</u>		Final to Total Variance
<u>Original</u>	<u>Final</u>	
\$ 562,616	\$ 562,616	\$ 63,159
900,000	900,000	27,644
35,212	265,212	(14,590)
3,710	3,710	10
41,000	51,700	10,745
261,108	779,246	444,003
988,229	999,946	(869,352)
55,000	101,823	(68,020)
<u>231,500</u>	<u>270,767</u>	<u>399,601</u>
<u>\$3,078,375</u>	<u>\$ 3,935,020</u>	<u>\$ (6,800)</u>
\$ 363,496	\$ 389,120	\$ (101,847)
299,811	272,278	93,349
10,000	10,000	10,000
345,074	465,951	40,103
237,115	464,275	(282,134)
200,708	214,553	(127,294)
-	544,042	(151,857)
400,000	1,350,000	724,634
<u>779,480</u>	<u>965,830</u>	<u>(45,723)</u>
<u>\$2,635,684</u>	<u>\$ 4,676,049</u>	<u>\$ 159,231</u>
\$ 442,691	\$ (741,029)	\$ 152,431
<u>-</u>	<u>850,000</u>	<u>0</u>
\$ 442,691	\$ 108,971	\$ 152,431
<u>1,221,509</u>	<u>1,207,122</u>	<u>(511,629)</u>
<u>\$1,664,200</u>	<u>\$ 1,316,093</u>	<u>\$ (359,198)</u>

City of Rock Valley, Iowa
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2007

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. 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, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds and the 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, budget amendments increased budgeted disbursements by \$2,040,365. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public safety, community and economic development, general government, debt service, capital projects functions, and business type activities.

Other Supplementary Information

City of Rock Valley, Iowa
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of the year ended June 30, 2007

		Local Option Sales Tax	Local Housing Assistance Program	Special
Receipts:				
Property tax	\$ 110,593	\$ -	\$ -	
Other city tax	-	247,185	-	
Use of money and property	-	-	-	
Intergovernmental	-	-	-	
Special assessments	-	-	-	
Miscellaneous	-	-	46,665	
Total receipts	<u>\$ 110,593</u>	<u>\$ 247,185</u>	<u>\$ 46,665</u>	
Disbursements:				
Operating:				
Public safety	\$ 99,356	\$ -	\$ -	
Public works	1,499	-	-	
Health and social services	-	-	-	
Culture and recreation	24,915	-	-	
Community and economic development	-	142,501	142,592	
General government	37,750	-	-	
Debt service	-	-	-	
Capital projects	-	-	-	
Total disbursements	<u>\$ 163,520</u>	<u>\$ 142,501</u>	<u>\$ 142,592</u>	
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (52,927)</u>	<u>\$ 104,684</u>	<u>\$ (95,927)</u>	
Other financing uses:				
Operating transfers in (out)	<u>35,000</u>	<u>(152,493)</u>	<u>204,244</u>	
Net change in cash balances	\$ (17,927)	\$ (47,809)	\$ 108,317	
Cash balances beginning of year	<u>49,264</u>	<u>303,779</u>	<u>(121,250)</u>	
Cash balances end of year	<u>\$ 31,337</u>	<u>\$ 255,970</u>	<u>\$ (12,933)</u>	

(Continued on page 44)

City of Rock Valley, Iowa
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2007

Revenue	
---------	--

RLF	Firefighting	Equipment	Total
	-	-	\$110,593
	-	-	247,185
	-	-	-
	-	-	-
	-	-	-
	<u>129,794</u>	<u>129,794</u>	<u>176,459</u>
	<u>129,794</u>	<u>129,794</u>	<u>\$534,237</u>

\$ -	\$ 99,356
-	1,499
-	-
-	24,915
15,000	300,093
-	37,750
-	-
-	-
<u>\$ 15,000</u>	<u>\$463,613</u>

\$114,794 \$ 70,624

- 86,751

114,794 \$157,375

(198,399) 33,394

\$ (83,605) \$190,769

===== =====

(Continued on page 45)

(Continued from page 42)

City of Rock Valley, Iowa
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2007

			Special
	Employee Benefits	Local Option Sales Tax	Local Housing Assistance Program
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 31,337	\$ 255,970	\$ (12,933)
Capital project fund	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	\$ 31,337	\$ 255,970	\$ (12,933)

See accompanying independent auditor's report.

(Continued from page 43)

Schedule 1

City of Rock Valley, Iowa
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2007

<u>Revenue</u>	
RLF	
Firefighting	
<u>Equipment</u>	<u>Total</u>
\$ (83,605)	\$190,769
-	-
<u>-</u>	<u>-</u>
<u>\$ (83,605)</u>	<u>\$190,769</u>

**City of Rock Valley, Iowa
Schedule of Indebtedness
Year Ended June 30, 2007**

Obligation	Date of Issue	Interest Rates
General Obligation Notes:		
G.O. Capital Loan Note – Series 2006	Sept. 25, 2006	3.75-4.30%
G.O. Capital Loan Note – IA DOT RISE	Mar. 15, 2006	0.00%
G.O. Capital Loan Notes – 300 th Street	Sept. 1, 2005	3.85%
G.O. Fire Fighting Equipment Notes	Oct. 11, 1004	0.00%
G.O. Capital Loan Notes – Series 2005	Oct. 1, 2004	2.00-3.90%
G.O. Capital Loan Notes – Series 2002	July 1, 2002	2.00-4.25%
G.O. Capital Loan Notes – E. 16 th /W. 17 th Street Project	April 1, 2001	4.70%
G.O. Capital Loan Notes – 10 th Avenue 1995 Street Project	Mar. 1, 1996	4.10-5.00%
G.O. Capital Loan Notes – W. 15 th Street Project 1997 Street Project	April 1, 1997	4.75-5.50%
G.O. Capital Loan Notes – E. 15 th Street Project 1998 Street Project	Jan. 1, 1998	4.50-5.00%
Urban Renewal Tax Increment Financing Revenue Bonds		
Urban Renewal Tax Increment (TIF)	July 30, 1999	5.55%
Total		

See accompanying independent auditor's report.

Schedule 2

Amount Originally Issued	Balance Beginning Of Year	Issued During Year	Redeemed During Year	Balance End Of Year	Interest Paid	Interest Due and Unpaid
\$ 850,000	\$ -	\$ 850,000	\$ 55,000	\$ 795,000	\$ 23,000	\$ 0
142,632	114,106	-	28,526	85,580	0	0
800,000	800,000	-	34,600	765,400	30,800	0
150,000	127,500	-	15,000	112,500	0	0
1,155,000	1,080,000	-	105,000	975,000	34,080	0
1,415,000	960,000	-	120,000	840,000	37,323	0
175,000	100,000	-	20,000	80,000	4,700	0
180,000	20,000	-	0	20,000	500	500
200,000	40,000	-	20,000	20,000	2,180	0
250,000	50,000	-	25,000	25,000	2,488	0
	<u>\$ 3,291,606</u>	<u>\$ 850,000</u>	<u>\$ 423,126</u>	<u>\$ 3,718,480</u>	<u>\$ 135,071</u>	<u>\$ 500</u>
	=====	=====	=====	=====	=====	=====
\$ 200,000	\$ 60,000	\$ -	\$ 20,000	\$ 40,000	\$ 3,330	\$ 0
	=====	=====	=====	=====	=====	=====

**City of Rock Valley, Iowa
Bond and Note Maturities
June 30, 2007**

General Obligation Notes

Year Ending June 30	<u>Series 2005</u> <u>Issued Oct. 1, 2005</u>		<u>Series 2002</u> <u>Issued July 1, 2002</u>		<u>Fire Fighting Equipment</u> <u>Issued Oct. 11, 2004</u>	
	Interest <u>Rates</u>	<u>Amount</u>	Interest <u>Rates</u>	<u>Amount</u>	Interest <u>Rates</u>	<u>Amount</u>
2008	2.35%	\$ 105,000	3.50%	\$ 125,000	0.00%	\$ 15,000
2009	2.65	110,000	3.75	130,000	0.00	15,000
2010	3.00	115,000	4.00	135,000	0.00	15,000
2011	3.25	120,000	4.10	145,000	0.00	15,000
2012	3.40	125,000	4.20	150,000	0.00	15,000
2013	3.55	125,000	4.25	155,000	0.00	15,000
2014	3.70	135,000		0	0.00	15,000
2015	3.90	<u>140,000</u>		<u>0</u>	0.00	<u>7,500</u>
Total		<u>\$ 975,000</u>		<u>\$ 840,000</u>		<u>\$ 112,500</u>

Revenue Bonds

Year Ending June 30	<u>Urban Renewal Tax Increment (TIF)</u> <u>Issued July 30, 1999</u>		
	Interest <u>Rate</u>	<u>Amount</u>	<u>Total</u>
2008	5.5%	\$ 20,000	\$ 20,000
2009	5.5	<u>20,000</u>	<u>20,000</u>
		<u>\$ 40,000</u>	<u>\$ 40,000</u>

See accompanying independent auditor's report.

**City of Rock Valley, Iowa
Bond and Note Maturities
June 30, 2007**

General Obligation Notes

Year Ending June 30	<u>Capital Loan Notes</u> <u>Series 2006</u> <u>Issued Sept. 25, 2006</u>		<u>Capital Loan Notes</u> <u>10th Avenue</u> <u>Issued March 1, 1996</u>		<u>Capital Loan Notes</u> <u>E. 16th Street</u> <u>Issued April 1, 2001</u>	
	<u>Interest</u> <u>Rate</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Amount</u>
2008	3.80%	\$ 75,000	5.00%	\$ 20,000	4.70%	\$ 20,000
2009	3.85	75,000		-	4.70	20,000
2010	3.90	80,000		-	4.70	20,000
2011	3.95	85,000		-	4.70	20,000
2012	4.00	90,000		-		
2013	4.10	95,000		-		
2014	4.15	95,000		-		
2015	4.20	100,000		-		
2016	4.30	<u>100,000</u>		<u>-</u>		<u>-</u>
Total		\$ 795,000 =====		\$ 20,000 =====		\$ 80,000 =====

**City of Rock Valley, Iowa
Bonds and Note Maturities
June 30, 2007**

General Obligation Notes

Year Ending June 30	<u>Capital Loan Notes</u> <u>300th Street</u> <u>Issued September 1, 2005</u>		<u>Capital Loan Notes</u> <u>W. 15th Street</u> <u>Issued April 1, 1997</u>		<u>Capital Loan Notes</u> <u>IA DOT - RISE</u> <u>Issued March 15, 2006</u>	
	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2008	3.85%	\$ 85,400	5.50%	\$ 20,000	0.00%	\$ 28,526
2009	3.85	70,000		-	0.00	28,527
2010	3.85	75,000		-	0.00	28,527
2011	3.85	80,000		-		
2012	3.85	85,000		-		
2013	3.85	90,000		-		
2014	3.85	90,000		-		
2015	3.85	95,000		-		
2016	3.85	95,000		-		
Total		\$ 765,400		\$ 20,000		\$ 85,580

See accompanying independent auditor's report.

**City of Rock Valley, Iowa
Bonds and Note Maturities
June 30, 2007**

General Obligation Notes

Year Ending June 30	<u>Capital Loan Notes</u> <u>E. 15th Street</u> <u>Issued January 1, 1998</u>		<u>Total</u>
	<u>Interest Rates</u>	<u>Amount</u>	
2008	5.00%	\$ 25,000	\$ 518,926
2009			448,527
2010			468,527
2011			465,000
2012			465,000
2013			480,000
2014			335,000
2015			342,500
2016		<u> </u>	<u>195,000</u>
Total		<u>\$ 25,000</u> =====	<u>\$ 3,718,480</u> =====

See accompanying independent auditor's report.

City of Rock Valley, Iowa
Schedule of Receipts By Source and Disbursements By Function
All Government Funds
For The Last Four Years

	2007	2006	2005	2004
Receipts:				
Property tax	\$ 625,775	\$ 634,496	\$ 646,557	\$ 593,935
Tax increment financing collections	927,644	738,871	687,448	617,364
Other city tax	250,622	235,723	204,949	252,438
Licenses and permits	3,720	4,231	2,905	3,445
Use of money and property	62,445	43,234	36,155	29,892
Intergovernmental	253,368	258,274	376,796	273,351
Charges for service	94,323	96,027	31,924	24,625
Special assessments	33,803	36,273	59,908	9,040
Miscellaneous	<u>670,368</u>	<u>812,667</u>	<u>464,924</u>	<u>244,153</u>
Total	\$ 2,922,068	\$ 2,859,796	\$ 2,511,566	\$ 2,048,243
Disbursements:				
Operating:				
Public safety	\$ 490,967	\$ 421,157	\$ 570,793	\$ 330,525
Public works	178,929	247,090	211,566	356,669
Health and social services	-	-	-	-
Culture and recreation	425,848	473,401	392,464	345,024
Community and economic development	746,409	510,884	609,298	245,415
General government	341,847	296,338	160,388	339,724
Debt service	695,899	418,412	320,293	331,179
Capital projects	<u>625,366</u>	<u>1,383,236</u>	<u>1,041,728</u>	<u>476,117</u>
Total	\$ 3,505,265	\$ 3,750,518	\$ 3,306,530	\$ 2,424,653

See accompanying independent auditor's report.

City of Rock Valley, Iowa

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 Rock Valley, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 26, 2007. Our report expressed unqualified opinions 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 Rock Valley's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Rock Valley's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Rock Valley's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects City of Rock Valley's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of City of Rock Valley's financial statements that is more than inconsequential will not be prevented or detected by City of Rock Valley's internal control. We consider the deficiencies in internal control described in Part II of the

accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by City of Rock Valley's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-07 and II-C-07 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rock Valley'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 II 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, 2007 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 Rock Valley's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit City of Rock Valley's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Rock Valley and other parties to whom the City of Rock Valley may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Van Bruggen & Vande Vegte, P.C.

City of Rock Valley, Iowa
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

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) Significant deficiencies 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) The City of Rock Valley did qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

Significant Deficiencies:

II-A-07 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the handling of cash and numerous recordkeeping functions are not entirely separated among employees.

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

Response – We will investigate this within economic constraints.

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

City of Rock Valley, Iowa
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Part II: Findings Related to the Financial Statements: (continued)

II-B-07 Capital Assets Record – A complete record of capital assets is not maintained.

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

Response – We will work on implementing this recommendation.

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

II-C-07 Countersignature of Checks

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

Response – We will consider this recommendation.

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

Instances of Non-Compliance:

No matters were noted.

**City of Rock Valley, Iowa
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007**

Part III: Other Findings Related to Statutory Reporting:

III-A-07 Certified Budget – Disbursements during the year ended June 30, 2007, exceeded the amounts budgeted in the public safety, community and economic development, debt service, general government and business type activities. 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 in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

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

Conclusion – Response accepted.

III-B-07 Questionable Disbursements - We noted no expenditures for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General’s opinion dated April 25, 1979.

III-C-07 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials and/or employees were noted.

III-D-07 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows.

Name, Title and Business Connection	Transaction Description	Amount
Kevin Van Otterloo, council member shareholder, Van’s Food Pride	materials	\$ 3,182
Chad Van Zee, council member shareholder, Valley Sand & Gravel, Inc.	materials	355,045

In accordance with Chapter 362.5 (10) of the Code of Iowa, the transactions with the council members do not appear to represent a conflict of interest since total transactions with each individual were less than \$1,500 during the fiscal year or the transaction with a council member does not appear to represent a conflict of interest since it was entered into through competitive bidding.

City of Rock Valley, Iowa
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Part III: Other Findings Related to Statutory Reporting: (continued)

- III-E-07 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 insure that the coverage is adequate for current operations.
- III-F-07 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not.
- III-G-07 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- III-H-07 Revenue Bonds - The Special Revenue Fund, TIF Fund, had a positive balance as of June 30, 2007. The Special Revenue Fund, Urban Renewal Tax Increment had a deficit balance as of June 30, 2007.

Recommendation - There should be more funds transferred to service the outstanding TIF debt.

Response - We will transfer more funds to service the TIF debt.

Conclusion - Response accepted.

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

Van Bruggen & Vande Vegte, P.C.

November 26, 2007