

**CITY OF ROCKWELL CITY, IOWA**

**INDEPENDENT AUDITOR'S REPORTS**

**BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**SCHEDULE OF FINDINGS**

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2007**

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**City of Rockwell City, Iowa**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Phil Heinlen	Mayor	Jan 2010
Gerri McCurdy	Mayor Pro Tem	Jan 2010
John Hepp	Council Member	Jan 2010
JoAnn Hendricks	Council Member	Jan 2008
Paul Kutz	Council Member	Jan 2008
Mark Lange	Council Member	Jan 2008
Kimberly Kelly	City Clerk	Jan 2008
Joni Hepp	Deputy Clerk/Treasurer	Jan 2008
Steve Hendricks	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 Rockwell City, 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 Rockwell City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 1, these 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 Rockwell City 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 February 1, 2008 on our consideration of the City of Rockwell City'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 page 4 through 7 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 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 Rockwell City'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. 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.

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

February 1, 2008

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Rockwell City 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 by approximately \$2,437,884 from fiscal 2006 to fiscal 2007, primarily due to donations for the library/community center project. Disbursements increased by \$443,944, in fiscal 2007 from fiscal 2006.
- Revenues of the City's proprietary activities increased 14%, while disbursements increased approximately 9% from fiscal 2006 to fiscal 2007.
- The City's total cash basis net assets increased approximately \$2,088,069 from June 30 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased approximately \$1,991,966 and the assets of the business type activities increased by approximately \$96,103.

### **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.

## **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 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 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 statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the 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 \$1.279 million to \$3.271 million. Included within this report is an analysis that focuses on the changes in cash balances for governmental activities.

The City's total receipts for governmental activities increased by 2,437,884 from 2006 to 2007. The total cost of all programs and services also increased, by approximately \$443,944, with no new programs added this year.

The City increased property tax rates for 2007 slightly, primarily due to debt service obligations.

<u>Year</u>	<u>Property Tax Receipts</u>	<u>City Levy</u>
FY04	\$554,487	19.15335
FY05	\$544,924	21.12691
FY06	\$550,634	20.98600
FY07	\$570,704	21.38066

The cost of all governmental activities this year was \$1.627 million compared to \$1.183 million last year. However, as shown in the Statement of Cash Receipts, the amount taxpayers ultimately financed for these activities was only \$570,704 because some of the cost was paid by those directly benefited from the programs (\$251,217) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$2,796,551). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2007 from approximately \$1.181 million to approximately \$3.618 million.

Total business type activities receipts for the fiscal year were \$776,511 compared to \$692,353 last year, an increase of \$84,158. Total disbursements for the fiscal year increased by approximately \$35,133, at \$644,675 in 2006 compared to \$680,408 in 2007. The propriety cash balance increased during the year by approximately \$96,103.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As Rockwell City completed the year, its governmental funds reported a combined fund balance of \$3,271,109, an increase of nearly \$1,991,966 above last year's total of \$1,279,143. 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 decreased \$23,663 from the prior year.
- The cash balance allocated for capital projects increased \$1,998,081.
- The employee benefit cash balance increased \$10,691.

- The Road Use Tax Fund cash balance increased by \$3,462 during the fiscal year.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$86,748 to \$1,311,361.
- The Sewer Fund cash balance increased by \$9,355 to \$268,034.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget twice, with approval in October 2006 and May 2007. The budget amendments covered several changes, including Kid's Kingdom playground; airport improvements; the library/community center; pool filters; park projects; fire department equipment; water and wastewater repairs; and adjustments to the street, police, and ambulance budgets.

#### **DEBT ADMINISTRATION**

As of June 30, 2007, the City had approximately \$2,160,000 in bonds, compared to approximately \$2,420,000 last year. In addition, the City has \$290,163 in capital leases for an end loader and fire truck. During the year, two capital loan notes were paid off, for the patrol car and ambulance.

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 \$480,163 is significantly below its constitutional debt limit.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Rockwell City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates, and fees that will be charged for various City activities. Due to the loss of state funds and stagnant/declining property values, city officials have been forced to cut departmental budgets during recent years. Each year cuts are forced which are resulting in the provision of fewer services to taxpayers. City officials have implemented incentives for development, such as residential and commercial tax abatement and an urban renewal/TIF district.

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

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kimberly Kelly, City Clerk, 335 Main Street, Rockwell City, Iowa 50579.

## **Basic Financial Statements**

City of Rockwell City, Iowa  
Statement of Activities and Net Assets - Cash Basis  
As of and for the year ended June 30, 2007

		Program Receipts	
		Charges for	Operating Grants, Contributions and Restricted
<b>Functions/Programs:</b>	<u>Disbursements</u>	<u>Service</u>	<u>Interest</u>
Governmental activities:			
Public safety	\$ 375,246	100,151	34,391
Public works	336,653	111,781	188,422
Culture and recreation	174,448	36,231	33,591
Community and economic development	5,197	-	1,000
General government	101,103	3,851	-
Debt service	144,183	-	-
Capital projects	489,676	-	-
Total governmental activities	<u>1,626,506</u>	<u>252,014</u>	<u>257,404</u>
Business type activities:			
Water	363,471	378,649	-
Sewer	316,937	308,527	-
Total business type activities	<u>680,408</u>	<u>687,176</u>	<u>-</u>
Total	<u>\$ 2,306,914</u>	<u>939,190</u>	<u>257,404</u>

**General Receipts:**

Property tax levied for:	
General purposes	
Debt service	
Unrestricted interest on investments	
Miscellaneous	
Total general receipts	
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	
Capital projects	
Debt service	
Other purposes	
Unrestricted	
<b>Total cash basis net assets</b>	

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
-	(240,704)	-	(240,704)
-	(36,450)	-	(36,450)
-	(104,626)	-	(104,626)
-	(4,197)	-	(4,197)
-	(97,252)	-	(97,252)
-	(144,183)	-	(144,183)
2,443,262	1,953,586	-	1,953,586
<u>2,443,262</u>	<u>1,326,174</u>	<u>-</u>	<u>1,326,174</u>
13,512	-	28,690	28,690
-	-	(8,410)	(8,410)
<u>13,512</u>	<u>-</u>	<u>20,280</u>	<u>20,280</u>
<u>2,456,774</u>	<u>1,326,174</u>	<u>20,280</u>	<u>1,346,454</u>
	438,890	-	438,890
	131,814	-	131,814
	57,497	75,823	133,320
	37,591	-	37,591
	<u>665,792</u>	<u>75,823</u>	<u>741,615</u>
	1,991,966	96,103	2,088,069
	1,279,143	1,483,292	2,762,435
	<u>\$ 3,271,109</u>	<u>1,579,395</u>	<u>4,850,504</u>
	\$ 127,632	-	127,632
	2,042,056	-	2,042,056
	7,768	226,902	234,670
	126,627	-	126,627
	967,026	1,352,493	2,319,519
	<u>\$ 3,271,109</u>	<u>1,579,395</u>	<u>4,850,504</u>

City of Rockwell City, Iowa

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

As of and for the year ended June 30, 2007

	<u>General</u>	<u>Special Revenue Road Use Tax</u>
Receipts:		
Property tax	\$ 258,192	-
Other city tax	16,174	-
Licenses and permits	3,851	-
Use of money and property	64,151	-
Intergovernmental	58,493	185,359
Charges for service	247,366	-
Miscellaneous	28,898	-
Total receipts	<u>677,125</u>	<u>185,359</u>
Disbursements:		
Operating:		
Public safety:		
Police	156,696	-
Civil defense	2,609	-
Fire	16,751	-
Ambulance	113,368	-
	<u>289,424</u>	<u>-</u>
Public works:		
Street lighting	-	25,145
Airport	17,237	-
Solid waste	96,386	-
Roadway maintenance	-	156,752
	<u>113,623</u>	<u>181,897</u>
Culture and recreation:		
Library	51,643	-
Park	16,187	-
Swimming pool	74,215	-
Cemetery	13,510	-
	<u>155,555</u>	<u>-</u>

Exhibit B

<u>Capital Projects</u>		Other	
<u>Library</u>	<u>Airport</u>	Nonmajor	<u>Total</u>
	<u>Phase I</u>	Governmental	
		<u>Funds</u>	
-	-	278,564	536,756
-	-	17,774	33,948
-	-	-	3,851
51,031	-	146	115,328
-	237,741	64,256	545,849
-	-	-	247,366
<u>2,099,547</u>	-	<u>6,929</u>	<u>2,135,374</u>
<u>2,150,578</u>	<u>237,741</u>	<u>367,669</u>	<u>3,618,472</u>
-	-	73,275	229,971
-	-	-	2,609
-	-	1,868	18,619
-	-	<u>10,679</u>	<u>124,047</u>
-	-	<u>85,822</u>	<u>375,246</u>
-	-	-	25,145
-	-	-	17,237
-	-	2,132	98,518
-	-	<u>39,001</u>	<u>195,753</u>
-	-	<u>41,133</u>	<u>336,653</u>
-	-	13,359	65,002
-	-	1,769	17,956
-	-	3,367	77,582
-	-	398	13,908
-	-	<u>18,893</u>	<u>174,448</u>

(continued)

City of Rockwell City, Iowa

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

As of and for the year ended June 30, 2007

	<u>General</u>	<u>Special Revenue Road Use Tax</u>
Community and economic development:		
Economic development	1,600	-
Community beautification	3,597	-
	<u>5,197</u>	<u>-</u>
General government:		
Policy administration	39,722	-
Tort liability	48,000	-
	<u>87,722</u>	<u>-</u>
Debt service	-	-
Capital projects	-	-
Total disbursements	<u>651,521</u>	<u>181,897</u>
Excess (deficiency) of receipts over (under) disbursements	<u>25,604</u>	<u>3,462</u>
Other Financing Sources		
Operating Transfers In	-	-
Operating Transfers Out	(49,267)	-
Total Other Financing Sources (Uses)	<u>(49,267)</u>	<u>-</u>
Net change in cash balances	(23,663)	3,462
Cash balances beginning of year	990,689	124,170
Cash balances end of year	<u>\$ 967,026</u>	<u>127,632</u>
<b>Cash Basis Fund Balances</b>		
Reserved:		
Debt service	\$ -	-
Unreserved:		
General fund	967,026	-
Special revenue funds	-	127,632
Capital projects	-	-
Permanent fund	-	-
Total cash basis fund balances	<u>\$ 967,026</u>	<u>127,632</u>

See notes to financial statements.

Exhibit B

<u>Capital Projects</u>		Other	
<u>Library</u>	<u>Airport</u> <u>Phase I</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
-	-	-	1,600
-	-	-	3,597
-	-	-	5,197
-	-	13,381	53,103
-	-	-	48,000
-	-	13,381	101,103
-	-	144,183	144,183
153,553	246,750	89,373	489,676
153,553	246,750	392,785	1,626,506
1,997,025	(9,009)	(25,116)	1,991,966
43,000	6,267	-	49,267
-	-	-	(49,267)
43,000	6,267	-	-
2,040,025	(2,742)	(25,116)	1,991,966
-	-	164,284	1,279,143
2,040,025	(2,742)	139,168	3,271,109
-	-	7,768	7,768
-	-	-	967,026
-	-	72,327	199,959
2,040,025	(2,742)	4,773	2,042,056
-	-	54,300	54,300
2,040,025	(2,742)	139,168	3,271,109

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

As of and for the year ended June 30, 2007

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 377,838	308,390	686,228
Miscellaneous	811	137	948
Total operating receipts	378,649	308,527	687,176
Operating disbursements:			
Business type activities:			
Personal services	89,721	80,443	170,164
Contractual services	21,077	15,850	36,927
Utilities	17,994	21,182	39,176
Repairs and maintenance	13,215	34,208	47,423
Other supplies and expenses	78,476	13,721	92,197
Capital outlay	12,496	18,593	31,089
Total operating disbursements	232,979	183,997	416,976
Excess (deficiency) of operating receipts over (under) operating disbursements	145,670	124,530	270,200
Non-operating receipts (disbursements):			
Intergovernmental	13,512	-	13,512
Interest on investments	58,058	17,765	75,823
Debt service:			
Principal redemption	(93,000)	(77,000)	(170,000)
Interest payments	(37,492)	(55,940)	(93,432)
Total non-operating receipts (disbursements)	(58,922)	(115,175)	(174,097)
Net change in cash balances	86,748	9,355	96,103
Cash balances beginning of year	1,224,613	258,679	1,483,292
Cash balances end of year	\$ 1,311,361	268,034	1,579,395
<b>Cash Basis Fund Balances</b>			
Reserved for improvements	\$ 236,138	-	236,138
Reserved for debt service	61,902	165,000	226,902
Unreserved	1,013,321	103,034	1,116,355
Total cash basis fund balances	\$ 1,311,361	268,034	1,579,395

See notes to financial statements.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2007

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

The City of Rockwell City is a political subdivision of the State of Iowa located in Calhoun County. It was first incorporated in 1876 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 and sewer utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Calhoun County E911 Service Board and Calhoun County Ambulance Authority.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2007

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 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.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2007

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.

Capital Projects:

The Library Fund is used to account for the transactions to construct a new library and community center.

The Airport Phase I Fund is used to account for the transactions for airport improvements for constructing a turnaround and rehabilitate runway lighting.

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.

C. Measurement Focus and Basis of Accounting

The City of Rockwell 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.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2007

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.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash**

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.

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

The City had no investments at June 30, 2007. During the year ended June 30, 2007 the City invested its excess funds in savings accounts and certificates of deposit.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2007

**(3) Bonds and Notes Payable**

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

Year Ending <u>June 30,</u>	General Obligation Bonds		Revenue Bonds	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	95,000	10,878	100,000	64,179
2009	95,000	5,462	104,000	60,183
2010	-	-	108,000	56,017
2011	-	-	112,000	51,695
2012	-	-	116,000	47,203
2013	-	-	121,000	42,555
2014	-	-	126,000	37,707
2015	-	-	131,000	32,648
2016	-	-	136,000	27,389
2017	-	-	141,000	21,932
2018	-	-	147,000	16,263
2019	-	-	153,000	10,352
2020	-	-	26,000	4,200
2021	-	-	27,000	3,420
2022	-	-	28,000	2,610
2023	-	-	29,000	1,770
2024	-	-	30,000	900
Total	<u>\$ 190,000</u>	<u>16,340</u>	<u>1,635,000</u>	<u>481,023</u>

Revenue Notes		Total	
<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
75,000	19,145	270,000	94,202
85,000	14,908	284,000	80,553
85,000	10,062	193,000	66,079
90,000	5,175	202,000	56,870
-	-	116,000	47,203
-	-	121,000	42,555
-	-	126,000	37,707
-	-	131,000	32,648
-	-	136,000	27,389
-	-	141,000	21,932
-	-	147,000	16,263
-	-	153,000	10,352
-	-	26,000	4,200
-	-	27,000	3,420
-	-	28,000	2,610
-	-	29,000	1,770
-	-	30,000	900
<u>335,000</u>	<u>49,290</u>	<u>2,160,000</u>	<u>546,653</u>

City of Rockwell City, Iowa  
Notes to Financial Statements  
June 30, 2007

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

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to separate water and sewer revenue sinking accounts for the purpose of making the note principal and interest payments when due.
- c. Additional monthly transfers equal to 25% of the monthly transfers to the water sinking account shall be made to a water reserve account. This account is restricted for the purpose of paying principal and interest should a deficiency exist in the water sinking account.
- d. A water improvement fund shall be maintained requiring a monthly payment of \$2,000; provided, however, that when the amount of said deposits in said fund shall equal or exceed \$75,000, no further monthly deposits need to be made except to maintain it at such level.
- e. 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.

**(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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2007

Contribution requirements are established by state statute. The City's contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$29,836, \$26,583, and \$25,758 respectively, equal to the required contributions for each year.

**(5) Compensated Absences**

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

<u>Type of Benefit</u>	<u>Amount</u>
Vacation, holiday and comp time	\$ 24,700
	=====

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

**(6) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$3,708 during the year ended June 30, 2007.

**(7) 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.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2007

**(8) Capital Leases**

The City entered into a capital lease for the purchase of a police car. This lease is from October 17, 2005 through July 17, 2007. During the year ended June 30, 2007 the City disbursed \$11,394 for this lease.

The City entered into a capital lease for the purchase of an end loader. This lease is from May 25, 2005 through May 25, 2010. During the year ended June 30, 2007 the City disbursed \$17,785 for this lease.

Future minimum lease payments are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2008	\$ 15,412	2,373	17,785
June 30, 2009	16,165	1,620	17,785
June 30, 2010	<u>16,956</u>	<u>829</u>	<u>17,785</u>
Total	\$ 48,533	4,822	53,355
	=====	=====	=====

The City entered into a capital lease for the purchase of an ambulance. This lease is from May 3, 2004 through May 3, 2007. During the year ended June 30, 2007 the City disbursed \$18,117 for this lease.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2007

The City entered into a capital lease for the purchase of a fire truck. This lease is from December 12, 2005 through December 12, 2015. During the year ended June 30, 2007, the City disbursed \$26,312 for this lease.

Future minimum lease payments are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2008	\$ 16,831	9,481	26,312
June 30, 2009	17,687	8,625	26,312
June 30, 2010	18,588	7,724	26,312
June 30, 2011	19,534	6,778	26,312
June 30, 2012	20,528	5,784	26,312
June 30, 2013	21,573	4,739	26,312
June 30, 2014	22,671	3,641	26,312
June 30, 2015	23,825	2,487	26,312
June 30, 2016	<u>25,037</u>	<u>1,275</u>	<u>26,312</u>
	\$ 186,274	50,534	236,808
	=====	=====	=====

**(9) 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>
Capital Projects:	General	
Library account		\$ 43,000
Airport Phase I account		<u>6,267</u>
		\$ 49,267
		=====

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2007

**(10) Project Commitments**

The City has committed to a couple of construction projects. One project is two airport

improvement projects for approximately \$643,000. The FAA has awarded the City of Rockwell City \$598,000 for these improvements with the rest of the funds coming from local sources. As of June 30, 2007 the City has spent approximately \$257,000 on these improvements.

The City has also committed to building a new library and community center for approximately \$2.6 million. This is to be financed with a CAT grant of \$250,000, city funds of \$43,000 and the rest from private donations.

**(11) Deficit Balances**

The Capital Projects, Airport Phase I account and Airport Phase II account had deficit balances of \$2,742 and \$10,043 respectively at June 30, 2007. These deficit balances are due to the result of project costs incurred prior to availability of funds. These deficits will be eliminated upon receipt of federal grants.

**Required Supplementary Information**

City of Rockwell City, 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 Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 536,756	-
Other city tax	33,948	-
Licenses and permits	3,851	-
Use of money and property	115,328	75,823
Intergovernmental	545,849	13,512
Charges for service	247,366	686,228
Miscellaneous	2,135,374	948
Total receipts	<u>3,618,472</u>	<u>776,511</u>
Disbursements:		
Public safety	375,246	-
Public works	336,653	-
Culture and recreation	174,448	-
Community and economic development	5,197	-
General government	101,103	-
Debt service	144,183	-
Capital Projects	489,676	-
Business type activities	-	680,408
Total disbursements	<u>1,626,506</u>	<u>680,408</u>
Excess (deficiency) of receipts over (under) disbursements	<u>1,991,966</u>	<u>96,103</u>
Other financing sources	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	1,991,966	96,103
Balances beginning of year	<u>1,279,143</u>	<u>1,483,292</u>
Balances end of year	<u>\$ 3,271,109</u>	<u>1,579,395</u>

See accompanying independent auditor's report.

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
536,756	534,135	534,135	2,621
33,948	34,317	34,317	(369)
3,851	3,317	3,317	534
191,151	54,075	54,075	137,076
559,361	242,554	805,330	(245,969)
933,594	844,250	868,750	64,844
<u>2,136,322</u>	<u>23,100</u>	<u>2,265,900</u>	<u>(129,578)</u>
<u>4,394,983</u>	<u>1,735,748</u>	<u>4,565,824</u>	<u>(170,841)</u>
375,246	346,113	378,413	3,167
336,653	346,098	360,778	24,125
174,448	133,492	203,992	29,544
5,197	2,000	6,400	1,203
101,103	106,392	109,392	8,289
144,183	144,317	144,317	134
489,676	-	2,845,643	2,355,967
<u>680,408</u>	<u>655,766</u>	<u>745,766</u>	<u>65,358</u>
<u>2,306,914</u>	<u>1,734,178</u>	<u>4,794,701</u>	<u>2,487,787</u>
<u>2,088,069</u>	<u>1,570</u>	<u>(228,877)</u>	<u>2,316,946</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2,088,069	1,570	(228,877)	2,316,946
<u>2,762,435</u>	<u>2,701,506</u>	<u>2,701,506</u>	<u>60,929</u>
<u>4,850,504</u>	<u>2,703,076</u>	<u>2,472,629</u>	<u>2,377,875</u>

City of Rockwell City, 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 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, the Permanent Fund and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$3,060,523 and budgeted receipts by \$2,830,076. The budget amendments are reflected in the final budgeted amount.

## **Other Supplementary Information**

City of Rockwell City, 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 Revenue			
	Employee Benefits	Library Building Trust	DARE	Debt Service
Receipts:				
Property tax	154,699	-	-	123,865
Other city tax	9,825	-	-	7,949
Use of money and property	-	146	-	-
Intergovernmental	-	2,333	-	11,923
Miscellaneous	740	705	240	-
Total receipts	<u>165,264</u>	<u>3,184</u>	<u>240</u>	<u>143,737</u>
Disbursements:				
Operating:				
Public safety:				
Police	73,143	-	132	-
Fire	1,868	-	-	-
Ambulance	10,679	-	-	-
	<u>85,690</u>	<u>-</u>	<u>132</u>	<u>-</u>
Public works				
Solid Waste	2,132	-	-	-
Roadway maintenance	39,001	-	-	-
	<u>41,133</u>	<u>-</u>	<u>-</u>	<u>-</u>
Culture and recreation:				
Library	8,835	4,524	-	-
Park	1,769	-	-	-
Swimming pool	3,367	-	-	-
Cemetery	398	-	-	-
	<u>14,369</u>	<u>4,524</u>	<u>-</u>	<u>-</u>
General government				
Policy administration	13,381	-	-	-
	<u>13,381</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital projects	-	-	-	-
Debt service	-	-	-	144,183
Total disbursements	<u>154,573</u>	<u>4,524</u>	<u>132</u>	<u>144,183</u>
Net change in cash balances	10,691	(1,340)	108	(446)
Cash balances beginning of year	<u>57,311</u>	<u>5,141</u>	<u>416</u>	<u>8,214</u>
Cash balances end of year	<u>68,002</u>	<u>3,801</u>	<u>524</u>	<u>7,768</u>
<b>Cash Basis Fund Balances</b>				
Reserved:				
Debt service	-	-	-	7,768
Unreserved:				
Special revenue funds	68,002	3,801	524	-
Capital Projects	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	<u>68,002</u>	<u>3,801</u>	<u>524</u>	<u>7,768</u>

See accompanying independent auditor's report.

Schedule 1

<u>Capital Projects</u>		<u>Permanent</u>	
<u>Kids</u>	<u>Airport</u>	<u>Cemetery</u>	
<u>Kingdom</u>	<u>Phase II</u>	<u>Perpetual</u>	<u>Total</u>
		<u>Care</u>	
-	-	-	278,564
-	-	-	17,774
-	-	-	146
50,000	-	-	64,256
<u>4,944</u>	<u>-</u>	<u>300</u>	<u>6,929</u>
<u>54,944</u>	<u>-</u>	<u>300</u>	<u>367,669</u>
-	-	-	73,275
-	-	-	1,868
<u>-</u>	<u>-</u>	<u>-</u>	<u>10,679</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>85,822</u>
-	-	-	2,132
<u>-</u>	<u>-</u>	<u>-</u>	<u>39,001</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>41,133</u>
-	-	-	13,359
-	-	-	1,769
-	-	-	3,367
<u>-</u>	<u>-</u>	<u>-</u>	<u>398</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>18,893</u>
-	-	-	13,381
79,330	10,043	-	89,373
<u>-</u>	<u>-</u>	<u>-</u>	<u>144,183</u>
<u>79,330</u>	<u>10,043</u>	<u>-</u>	<u>392,785</u>
(24,386)	(10,043)	300	(25,116)
<u>39,202</u>	<u>-</u>	<u>54,000</u>	<u>164,284</u>
<u>14,816</u>	<u>(10,043)</u>	<u>54,300</u>	<u>139,168</u>
-	-	-	7,768
-	-	-	72,327
14,816	(10,043)	-	4,773
<u>-</u>	<u>-</u>	<u>54,300</u>	<u>54,300</u>
<u>14,816</u>	<u>(10,043)</u>	<u>54,300</u>	<u>139,168</u>

City of Rockwell City, Iowa

Schedule of Indebtedness

Year ended June 30, 2007

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds:			
Emergency services construction	Jun 1, 2000	5.60-5.75	350,000
Total			
Revenue bonds:			
Sewer revenue	Apr 19, 1999	4.23 %	\$ 1,766,000
Water revenue	Apr 30, 2004	3.00 %	466,000
Total			
Revenue notes:			
Water construction	Jul 1, 1996	5.00-5.75 %	\$ 905,000
Capital leases:			
Ambulance	May 3, 2004	4.29	\$ 50,000
End Loader	May 25, 2005	4.89	80,455
Fire Truck	Dec 12, 2005	5.09	202,289
Police Car	Oct 14, 2005	5.50	21,735
Total			

See accompanying independent auditor's report.

Schedule 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<u>280,000</u>	<u>-</u>	<u>90,000</u>	<u>190,000</u>	<u>15,918</u>	<u>-</u>
<u>\$ 280,000</u>	<u>-</u>	<u>90,000</u>	<u>190,000</u>	<u>15,918</u>	<u>-</u>
<u>1,307,000</u>	<u>-</u>	<u>77,000</u>	<u>1,230,000</u>	<u>55,287</u>	<u>-</u>
<u>423,000</u>	<u>-</u>	<u>18,000</u>	<u>405,000</u>	<u>12,690</u>	<u>-</u>
<u>\$ 1,730,000</u>	<u>-</u>	<u>95,000</u>	<u>1,635,000</u>	<u>67,977</u>	<u>-</u>
<u>410,000</u>	<u>-</u>	<u>75,000</u>	<u>335,000</u>	<u>23,345</u>	<u>-</u>
<u>17,371</u>	<u>-</u>	<u>17,371</u>	<u>-</u>	<u>745</u>	<u>-</u>
<u>63,222</u>	<u>-</u>	<u>14,693</u>	<u>48,529</u>	<u>3,092</u>	<u>-</u>
<u>202,289</u>	<u>-</u>	<u>16,015</u>	<u>186,274</u>	<u>10,297</u>	<u>-</u>
<u>11,118</u>	<u>-</u>	<u>11,118</u>	<u>-</u>	<u>569</u>	<u>-</u>
<u>\$ 294,000</u>	<u>-</u>	<u>59,197</u>	<u>234,803</u>	<u>14,703</u>	<u>-</u>

Bond and Note Maturities

June 30, 2007

Year Ending <u>June 30,</u>	<u>General Obligation Bonds</u>	
	Emergency Services	
	Issued June 1, 2000	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2008	5.70 %	\$ 95,000
2009	5.75	<u>95,000</u>
Total		<u>\$ 190,000</u>

	<u>Revenue Notes</u>	
	Water Construction	
	Issued July, 1996	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2008	6.50 %	\$ 75,000
2009	5.70	85,000
2010	5.75	85,000
2011	5.75	<u>90,000</u>
Total		<u>\$ 335,000</u>

City of Rockwell City, Iowa

Bond and Note Maturities

June 30, 2007

Year Ending <u>June 30,</u>	Revenue Bonds			
	Sewer Revenue 1		Sewer Revenue 2	
	Series 1999		Series 1999	
	Interest <u>Rates</u>	<u>Amount</u>	Interest <u>Rates</u>	<u>Amount</u>
2008	4.23 %	\$ 79,000	4.23 %	\$ 2,000
2009	4.23	83,000	4.23	2,000
2010	4.23	86,000	4.23	2,000
2011	4.23	90,000	4.23	2,000
2012	4.23	93,000	4.23	2,000
2013	4.23	97,000	4.23	2,000
2014	4.23	102,000	4.23	2,000
2015	4.23	106,000	4.23	2,000
2016	4.23	110,000	4.23	2,000
2017	4.23	115,000	4.23	2,000
2018	4.23	120,000	4.23	2,000
2019	4.23	125,000	4.23	2,000
2020		-		-
2021		-		-
2022		-		-
2023		-		-
2024		-		-
Total		<u>\$ 1,206,000</u>		<u>\$ 24,000</u>

See accompanying independent auditor's report.

Schedule 3

<u>Revenue Bonds</u>			
Water Revenue			
<u>Series 2004</u>			
Interest			
<u>Rates</u>		<u>Amount</u>	<u>Total</u>
3.00 %	\$	19,000	100,000
3.00		19,000	104,000
3.00		20,000	108,000
3.00		20,000	112,000
3.00		21,000	116,000
3.00		22,000	121,000
3.00		22,000	126,000
3.00		23,000	131,000
3.00		24,000	136,000
3.00		24,000	141,000
3.00		25,000	147,000
3.00		26,000	153,000
3.00		26,000	26,000
3.00		27,000	27,000
3.00		28,000	28,000
3.00		29,000	29,000
3.00		<u>30,000</u>	<u>30,000</u>
		<u>\$ 405,000</u>	<u>1,635,000</u>

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Four Years

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Receipts:</b>				
Property tax	\$ 536,756	\$ 516,996	\$ 510,503	\$ 522,195
Other city tax	33,948	33,638	34,421	32,292
Licenses and permits	3,851	4,446	3,250	3,597
Use of money and property	115,328	51,982	28,949	19,401
Intergovernmental	545,849	229,282	319,200	302,489
Charges for service	247,366	253,458	228,905	206,066
Miscellaneous	<u>2,135,374</u>	<u>90,786</u>	<u>40,593</u>	<u>22,352</u>
 Total	 <u>\$ 3,618,472</u>	 <u>\$ 1,180,588</u>	 <u>\$ 1,165,821</u>	 <u>\$ 1,108,392</u>
 <b>Disbursements:</b>				
Operating				
Public safety	\$ 375,246	\$ 335,787	\$ 436,336	\$ 370,836
Public works	336,653	409,035	335,467	294,759
Health and social services	-	-	6,200	6,751
Culture and recreation	174,448	141,138	134,989	145,277
Community and economic development	5,197	2,495	2,195	36,149
General government	101,103	139,614	102,024	124,006
Debt service	144,183	116,759	110,654	104,965
Capital projects	<u>489,676</u>	<u>37,734</u>	<u>-</u>	<u>3,001</u>
 Total	 <u>\$ 1,626,506</u>	 <u>\$ 1,182,562</u>	 <u>\$ 1,127,865</u>	 <u>\$ 1,085,744</u>

See accompanying independent auditor's report.

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 Rockwell City, 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 February 1, 2008. 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 Rockwell City'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 the City of Rockwell City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Rockwell City'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 the City of Rockwell City'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 the City of Rockwell City's financial statements that is more than inconsequential will not be prevented or detected by the City of Rockwell City's internal control. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings to be a significant deficiency 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 the City of Rockwell City'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 item I-A-07 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rockwell City'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.

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.

The City of Rockwell City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Rockwell City'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 Rockwell City and other parties to whom the City of Rockwell City 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 Rockwell City 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

February 1, 2008

City of Rockwell City, Iowa

Schedule of Findings

Year ended June 30, 2007

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT DEFICIENCIES:**

I-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 certain functions are not entirely segregated, such as preparing receipts and posting utility billing.

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.

Response – We feel we are doing the best we can with the limited personnel we have.

Conclusion – Response acknowledged.

**Part II: Other Findings Related to Statutory Reporting:**

II-A-07 Certified Budget – Disbursements during the year ended June 30, 2007, did not exceed the amounts budgeted.

II-B-07 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.

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

City of Rockwell City, Iowa

Schedule of Findings

Year ended June 30, 2007

II-D-07 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
John Hepp, Council Member owns Johns Car Clinic	Repairs	\$ 826
Phil Hammen, Employee, Self-employed	Skid Loader Rental	\$ 460
Paul Kutz, Council Member owns Lumber Shop	Repairs	\$ 2,422

In accordance with Chapter 362.5(10) of the Code of Iowa, the above transactions do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

II-E-07 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 coverage is adequate for current operations.

II-F-07 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-07 Deposits and Investments - No instances of non-compliance with the deposit and investments provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

City of Rockwell City, Iowa

Schedule of Findings

Year ended June 30, 2007

II-H-07 Revenue Notes/Bonds – The City has complied with the revenue bond and note resolutions.

II-I-07 Financial Condition – The Capital Projects, Airport Phase I and Airport Phase II accounts had deficit balances of \$2,742 and \$10,043 respectively at June 30, 2007.

Recommendation – The City should investigate alternatives to eliminate those deficits to return these funds to a sound financial position.

Response – These deficits were due to construction costs incurred prior to receipt of federal grants.

Conclusion – Response accepted.