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, 2008

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City of Rockwell City, Iowa

Officials

Name	Title	Term Expires
(Before January 2008)		
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
(After January 2008)		
Phil Heinlen	Mayor	Jan 2010
Gerri McCurdy	Mayor Pro Tem	Jan 2010
John Hepp	Council Member	Jan 2010
JoAnn Hendricks	Council Member	Jan 2011
Mike Roller	Council Member	Jan 2011
Mark Lange	Council Member	Jan 2011
Kimberly Kelly	City Clerk	Aug 2010
Joni Hepp	Deputy Clerk/Treasurer	Jan 2010
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, 2008, 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, 2008, 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 March 13, 2009 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, 2007 (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

March 13, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased by approximately $1,846,766 from fiscal 2007 to fiscal 2008. Disbursements increased by $1,542,063, in fiscal 2008 from fiscal 2007.
- Revenues of the City's proprietary activities decreased less than 1%, while disbursements decreased approximately 3% from fiscal 2007 to fiscal 2008.
- The City's total cash basis net assets decreased approximately $1,535,809 from June 30 2007 to June 30, 2008. Of this amount, the assets of the governmental activities decreased approximately $1,396,863 and the assets of the business type activities decreased by approximately $138,945.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial 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 decreased from a year ago, decreasing from $3.271 million to $1.874 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 decreased by 1,846,766 from 2007 to 2008. The total cost of all programs and services increased, by approximately $1,542,063.

The City decreased property tax rates for 2008.

Year	Property Tax Receipts	City Levy
FY05	$544,924	21.12691
FY06	$550,634	20.98600
FY07	$570,704	21.38066
FY08	$565,035	21.20324

The cost of all governmental activities this year was $3.169 million compared to $1.627 million last year. However, as shown in the Statement of Cash Receipts, the amount taxpayers ultimately financed for these activities was only $565,035 because some of the cost was paid by those directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2008 from approximately $3.618 million to approximately $1.772 million.

Total business type activities receipts for the fiscal year were $741,204 compared to $776,511 last year, a decrease of $35,307. Total disbursements for the fiscal year increased by approximately $199,741, at $680,408 in 2007 compared to $880,149 in 2008. The propriety cash balance decreased during the year by approximately $138,945.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Rockwell City completed the year, its governmental funds reported a combined fund balance of $1,874,246, a decrease of nearly $1,396,863 above last year's total of $3,271,109. 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 $45,812 from the prior year.
- The cash balance allocated for capital projects decreased 567,273.
- The employee benefit cash balance increased $17,660.

- The Road Use Tax Fund cash balance decreased by $11,278.00 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by $127,609 to $1,183,752.
- The Sewer Fund cash balance decreased by $11,337 to $256,697.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once, with approval in May 2008. The budget amendments covered several changes, including Kid's Kingdom playground; airport improvements; the library/community center; park projects; dangerous building demolition; water and wastewater repairs; and adjustments to the police budget.

DEBT ADMINISTRATION

As of June 30, 2008, the City had approximately $1,890,000 in bonds, compared to approximately $2,160,000 last year. In addition, the City has $272,273 in capital leases for an end loader, fire truck and a police car.

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 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 2009 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 Kelly Smidt, 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, 2008

		Program Receipts	
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	$ 278,323	41,997	7,821
Public works	361,426	116,649	192,594
Culture and recreation	142,224	35,950	41,977
Community and economic development	7,186	-	1,000
General government	106,277	3,835	-
Debt service	132,589	-	-
Capital projects	2,140,544	-	-
Total governmental activities	3,168,569	198,431	243,392
Business type activities:			
Water	542,992	372,281	-
Sewer	337,157	312,980	-
Total business type activities	880,149	685,261	-
Total	$ 4,048,718	883,692	243,392

General Receipts:
Property tax levied for:
General purposes
Debt service
Unrestricted interest on investments
Bond proceeds
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
Total cash basis net assets

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
-	(228,505)	-	(228,505)
-	(52,183)	-	(52,183)
-	(64,297)	-	(64,297)
-	(6,186)	-	(6,186)
-	(102,442)	-	(102,442)
-	(132,589)	-	(132,589)
679,184	(1,461,360)	-	(1,461,360)
679,184	(2,047,562)	-	(2,047,562)
	-	(170,711)	(170,711)
-	-	(24,177)	(24,177)
-	-	(194,888)	(194,888)
679,184	(2,047,562)	(194,888)	(2,242,450)
	447,355	-	447,355
	120,751	-	120,751
	47,701	55,942	103,643
	-	-	-
	34,892	-	34,892
	650,699	55,942	706,641
	(1,396,863)	(138,946)	(1,535,809)
	3,271,109	1,579,395	4,850,504
	$ 1,874,246	1,440,449	3,314,695
	$ 116,354	-	116,354
	217,862	-	217,862
	7,913	229,046	236,959
	519,279	-	519,279
	1,012,838	1,211,403	2,224,241
	$ 1,874,246	1,440,449	3,314,695

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, 2008

	General	Special Revenue Road Use Tax
Receipts:		
Property tax	$ 259,389	-
Tax increment financing	-	
Other city tax	15,686	-
Licenses and permits	3,835	-
Use of money and property	53,590	-
Intergovernmental	33,129	190,536
Charges for service	191,316	-
Miscellaneous	22,332	-
Total receipts	579,277	190,536
Disbursements:		
Operating:		
Public safety:		
Police	166,148	-
Civil defense	2,614	-
Fire	8,983	-
Ambulance	20,891	-
	198,636	-
Public works:		
Street lighting	-	25,299
Airport	13,515	-
Solid waste	104,190	-
Roadway maintenance	-	176,515
	117,705	201,814
Culture and recreation:		
Library	54,055	-
Park	22,245	-
Swimming pool	38,385	-
Cemetery	10,228	-
	124,913	-

Capital Projects		Other Nonmajor Governmental Funds	Total
Library	Airport Phase II		
-	-	273,228	532,617
		3,072	3,072
-	-	16,732	32,418
-	-	-	3,835
51,292	-	286	105,168
114,318	340,747	35,047	713,777
-	-	-	191,316
152,218	-	14,953	189,503
317,828	340,747	343,318	1,771,706
-	-	73,055	239,203
-	-	-	2,614
-	-	2,062	11,045
-	-	4,570	25,461
-	-	79,687	278,323
-	-	-	25,299
-	-	-	13,515
-	-	2,251	106,441
-	-	39,656	216,171
-	-	41,907	361,426
-	-	11,255	65,310
-	-	1,832	24,077
-	-	3,777	42,162
-	-	447	10,675
-	-	17,311	142,224

(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, 2008

	General	Special Revenue Road Use Tax
Community and economic development:		
Economic development	1,700	-
Community beautification	2,414	-
	4,114	-
General government:		
Policy administration	37,810	-
Tort liability	50,000	-
	87,810	-
Debt service	-	-
Capital projects	-	-
Total disbursements	533,178	201,814
Excess (deficiency) of receipts over (under) disbursements	46,099	(11,278)
Other financing sources		
Operating transfers in	-	-
Operating transfers out	(287)	-
Total other financing sources (uses)	(287)	-
Net change in cash balances	45,812	(11,278)
Cash balances beginning of year	967,026	127,632
Cash balances end of year	$ 1,012,838	116,354
Cash Basis Fund Balances		
Reserved:		
Debt service	$ -	-
Unreserved:		
General fund	1,012,838	-
Special revenue funds	-	116,354
Capital projects	-	-
Permanent fund	-	-
Total cash basis fund balances	$ 1,012,838	116,354

See notes to financial statements.

Capital Projects		Other Nonmajor Governmental Funds	Total
Library	Airport Phase II		
-	-	3,072	4,772
-	-	-	2,414
-	-	3,072	7,186
-	-	18,467	56,277
-	-	-	50,000
-	-	18,467	106,277
-	-	132,589	132,589
1,767,873	348,638	24,033	2,140,544
1,767,873	348,638	317,066	3,168,569
(1,450,045)	(7,891)	26,252	(1,396,863)
		287	287
-	-	-	(287)
-	-	287	-
(1,450,045)	(7,891)	26,539	(1,396,863)
2,040,025	(10,043)	146,469	3,271,109
589,980	(17,934)	173,008	1,874,246
-	-	7,913	7,913
-	-	-	1,012,838
-	-	101,508	217,862
589,980	(17,934)	8,937	580,983
-	-	54,650	54,650
589,980	(17,934)	173,008	1,874,246

City of Rockwell City, Iowa Exhibit C

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

As of and for the year ended June 30, 2008

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	$ 370,521	305,918	676,439
Miscellaneous	1,760	7,063	8,823
Total operating receipts	372,281	312,981	685,262
Operating disbursements:			
Business type activities:			
Personal services	92,972	83,680	176,652
Contractual services	20,367	5,613	25,980
Utilities	17,703	26,233	43,936
Repairs and maintenance	15,656	48,006	63,662
Other supplies and expenses	79,872	15,439	95,311
Total operating disbursements	226,570	178,971	405,541
Excess (deficiency) of operating receipts over (under) operating disbursements	145,711	134,010	279,721
Non-operating receipts (disbursements):			
Interest on investments	43,103	12,839	55,942
Capital Outlay	(189,715)	(24,541)	(214,256)
Debt service:			
Principal redemption	(94,000)	(81,000)	(175,000)
Interest payments	(32,707)	(52,645)	(85,352)
Total non-operating receipts (disbursements)	(273,319)	(145,347)	(418,666)
Net change in cash balances	(127,608)	(11,337)	(138,945)
Cash balances beginning of year	1,311,360	268,034	1,579,394
Cash balances end of year	$ 1,183,752	256,697	1,440,449
Cash Basis Fund Balances			
Reserved for improvements	$ 237,354	-	237,354
Reserved for debt service	64,046	165,000	229,046
Unreserved	882,352	91,697	974,049
Total cash basis fund balances	$ 1,183,752	256,697	1,440,449

See notes to financial statements.

(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.

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.

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.

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, 2008 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, 2008. During the year ended June 30, 2008 the City invested its excess funds in savings accounts and certificates of deposit.

(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 June 30,	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2009	95,000	5,463	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	$ 95,000	5,463	1,535,000	416,844

Revenue Notes		Total	
Principal	Interest	Principal	Interest
85,000	14,908	284,000	80,554
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
260,000	30,145	1,890,000	452,452

Revenue Notes/Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay $1,371,000 in Water Revenue Notes/Bonds issued in 1996 and 2004. Proceeds from these notes/bonds provided financing for water improvements. The notes/bonds are payable solely from water customer net receipts and are payable through 2024. Annual principal and interest payments on the notes/bonds are expected to require less than 90 percent of net receipts. The total principal and interest remaining to be paid on the notes/bonds is $781,742. For the current year, principal and interest paid and total customer net receipts were $188,814 and $126,707 respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay $1,766,000 in sewer revenue notes issued in April 1999. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2019. Annual principal and interest payments on the notes are expected to require less than 90 percent of net receipts. The total principal and interest remaining to be paid on the notes is $1,460,244. For the current year, principal and interest paid and total customer net receipts were $139,858 and $133,645 respectively.

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 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. 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 requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were $27,503, $29,836, and $26,583 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, 2008, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation, holiday and comp time	$ 24,000

This liability has been computed based on rates of pay in effect at June 30, 2008.

(6) Related Party Transactions

The City had business transactions between the City and City officials totaling $1,675 during the year ended June 30, 2008.

(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.

(8) Capital Leases

The City entered into a capital lease for the purchase of a police car. This lease is from June 25, 2008 through June 30, 2010. The first lease payment is due July 15, 2008.

Future minimum lease payments are as follows:

Year Ending	Principal	Interest	Total
June 30, 2009	$ 8,659	78	8,737
June 30, 2010	7,776	961	8,737
June 30, 2011	8,242	495	8,737
Total	$ 24,677	1,534	26,211
	======	======	======

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, 2008 the City disbursed $17,785 for this lease.

Future minimum lease payments are as follows:

Year Ending	Principal	Interest	Total
June 30, 2009	16,166	1,620	17,786
June 30, 2010	16,951	829	17,780
Total	$ 33,117	2,449	35,566
	=====	=====	======

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, 2008, the City disbursed $26,312 for this lease.

Future minimum lease payments are as follows:

Year Ending	Principal	Interest	Total
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	25,037	1,275	26,312
	$ 169,443	41,053	210,496
	======	======	======

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
Capital Projects:	General	
Airport Phase I account		287
		$ 287
		=====

(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, 2008 the City has spent approximately $624,000 on these improvements, leaving $19,000 additional costs for this project.

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. As of June 30, 2008 the City has spent approximately $1.9 million, leaving $680,000 additional costs for this project.

(11) Deficit Balances

The Capital Projects Airport Phase II account had a deficit balance of $17,934 respectively at June 30, 2008. This deficit balance is due to the result of project costs incurred prior to availability of funds. This deficit 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, 2008

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	$ 532,617	-
Tax increment financing	3,072	-
Other city tax	32,418	-
Licenses and permits	3,835	-
Use of money and property	105,168	55,942
Intergovernmental	713,777	-
Charges for service	191,316	676,439
Miscellaneous	189,503	8,823
Total receipts	1,771,706	741,204
Disbursements:		
Public safety	278,323	-
Public works	361,426	-
Culture and recreation	142,224	-
Community and economic development	7,186	-
General government	106,277	-
Debt service	132,589	-
Capital Projects	2,140,544	214,256
Business type activities	-	665,893
Total disbursements	3,168,569	880,149
Excess (deficiency) of receipts over (under) disbursements	(1,396,863)	(138,945)
Other financing sources	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(1,396,863)	(138,945)
Balances beginning of year	3,271,109	1,579,394
Balances end of year	$ 1,874,246	1,440,449

See accompanying independent auditor's report.

Net	Budgeted Amounts Original	Budgeted Amounts Final	Final to Net Variance
532,617	531,890	531,890	727
3,072			
32,418	33,211	33,211	(793)
3,835	3,763	3,763	72
161,110	94,175	94,175	66,935
713,777	839,622	886,317	(172,540)
867,755	904,375	904,375	(36,620)
198,326	777,175	788,325	(589,999)
2,512,910	3,184,211	3,242,056	(732,218)
278,323	372,248	378,248	99,925
361,426	358,305	383,835	22,409
142,224	144,311	158,161	15,937
7,186	4,800	26,300	19,114
106,277	108,797	108,797	2,520
132,589	132,590	132,590	1
2,354,800	1,353,570	2,904,413	549,613
665,893	737,520	898,020	232,127
4,048,718	3,212,141	4,990,364	941,646
(1,535,808)	(27,930)	(1,748,308)	212,500
-	2,800	2,800	(2,800)
(1,535,808)	(25,130)	(1,745,508)	209,700
4,850,503	2,680,737	4,850,503	-
3,314,695	2,655,607	3,104,995	209,700

City of Rockwell City, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

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 $1,778,510 and budgeted receipts by $57,845. 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, 2008

	Special Revenue			
	Employee Benefits	Library Building Trust	DARE	TIF
Receipts:				
Property tax	159,425	-	-	-
Tax increment financing				3,072
Other city tax	9,785	-	-	-
Use of money and property	-	286	-	-
Intergovernmental	-	2,454	-	-
Miscellaneous	3,289	11,214	100	-
Total receipts	172,499	13,954	100	3,072
Disbursements:				
Operating:				
Public safety:				
Police	73,026	-	29	-
Fire	2,062	-	-	-
Ambulance	4,570	-	-	-
	79,658	-	29	-
Public works				
Solid Waste	2,251	-	-	-
Roadway maintenance	39,656	-	-	-
	41,907	-	-	-
Culture and recreation:				
Library	8,751	2,504	-	-
Park	1,832	-	-	-
Swimming pool	3,777	-	-	-
Cemetery	447	-	-	-
	14,807	2,504	-	-
Community and economic development:				
Economic development	-	-	-	3,072
General government				
Policy administration	18,467	-	-	-
Capital projects	-	-	-	
Debt service	-	-	-	-
Total disbursements	154,839	2,504	29	3,072

	Capital Projects		Permanent	
Debt Service	Kids Kingdom	Airport Phase I	Cemetery Perpetual Care	Total
113,803	-	-	-	273,228
				3,072
6,947	-	-	-	16,732
-	-	-	-	286
11,984		20,609	-	35,047
-	-	-	350	14,953
132,734	-	20,609	350	343,318
-	-	-	-	73,055
-	-	-	-	2,062
-	-	-	-	4,570
-	-	-	-	79,687
-	-	-	-	2,251
-	-	-	-	39,656
-	-	-	-	41,907
-	-	-	-	11,255
-	-	-	-	1,832
-	-	-	-	3,777
-	-	-	-	447
-	-	-	-	17,311
-	-	-	-	3,072
-	-	-	-	18,467
-	5,879	18,154	-	24,033
132,589	-	-	-	132,589
132,589	5,879	18,154	-	317,066

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, 2008

	Special Revenue			
	Employee Benefits	Library Building Trust	DARE	TIF
Other Financing Sources (Uses)				
Operating Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net change in cash balances	17,660	11,450	71	-
Cash balances beginning of year	68,002	3,801	524	-
Cash balances end of year	85,662	15,251	595	-
Cash Basis Fund Balances				
Reserved:				
Debt service	-	-	-	-
Unreserved:				
Special revenue funds	85,662	15,251	595	-
Capital Projects	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	85,662	15,251	595	-

See accompanying independent auditor's report.

	Capital Projects		Permanent	
Debt Service	Kids Kingdom	Airport Phase I	Cemetary Perpetual Care	Total
-	-	287	-	287
-	-	287	-	287
145	(5,879)	2,742	350	26,539
7,768	14,816	(2,742)	54,300	146,469
7,913	8,937	-	54,650	173,008
7,913	-	-	-	7,913
-	-	-	-	101,508
-	8,937	-	-	8,937
-	-	-	54,650	54,650
7,913	8,937	-	54,650	173,008

City of Rockwell City, Iowa

Schedule of Indebtedness

Year ended June 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Emergency services construction	Jun 1, 2000	5.70-5.75 %	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:			
End Loader	May 25, 2005	4.89 %	80,455
Fire Truck	Dec 12, 2005	5.09 %	202,289
Police Car	June, 26 2008	6.00 %	24,677
Total			

See accompanying independent auditor's report.

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
190,000	-	95,000	95,000	10,878	-
$ 190,000	-	95,000	95,000	10,878	-
1,230,000	-	81,000	1,149,000	52,029	-
405,000	-	19,000	386,000	12,150	-
$ 1,635,000	-	100,000	1,535,000	64,179	-
335,000	-	75,000	260,000	19,145	-
48,529	-	15,412	33,117	2,373	-
186,274	-	16,831	169,443	9,481	-
-	24,677	-	24,677	-	-
$ 234,803	24,677	32,243	202,560	11,854	-

City of Rockwell City, Iowa

Schedule 3

Bond and Note Maturities

June 30, 2008

Year Ending June 30,	General Obligation Bonds Emergency Services Issued June 1, 2000 Interest Rates	Amount
2009	5.75 %	95,000
Total		$ 95,000

	Revenue Notes Water Construction Issued July, 1996 Interest Rates	Amount
2009	5.70	85,000
2010	5.75	85,000
2011	5.75	90,000
Total		$ 260,000

City of Rockwell City, Iowa

Bond and Note Maturities

June 30, 2008

Year Ending June 30,	Revenue Bonds: Sewer Revenue 1 Series 1999 Interest Rates	Amount	Revenue Bonds: Sewer Revenue 2 Series 1999 Interest Rates	Amount
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		$ 1,127,000		$ 22,000

See accompanying independent auditor's report.

Schedule 3

Water Revenue Series 2004			
Interest Rates		Amount	Total
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		30,000	30,000
		$ 386,000	1,535,000

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

For the Last Four Years

	2008	2007	2006	2005
Receipts:				
Property tax	$ 532,617	536,756	516,996	510,503
Other city tax	32,418	33,948	33,638	34,421
Licenses and permits	3,835	3,851	4,446	3,250
Use of money and property	105,168	115,328	51,982	28,949
Intergovernmental	713,777	545,849	229,282	319,200
Charges for service	191,316	247,366	253,458	228,905
Miscellaneous	189,503	2,135,374	90,786	40,593
Total	$ 1,768,634	3,618,472	1,180,588	1,165,821
Disbursements:				
Operating				
Public safety	$ 278,323	375,246	335,787	436,336
Public works	361,426	336,653	409,035	335,467
Health and social services	-		-	6,200
Culture and recreation	142,224	174,448	141,138	134,989
Community and economic development	7,186	5,197	2,495	2,195
General government	106,277	101,103	139,614	102,024
Debt service	132,589	144,183	116,759	110,654
Capital projects	2,140,544	489,676	37,734	-
Total	$ 3,168,569	1,626,506	1,182,562	1,127,865

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, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated March 13, 2009. 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 deficiencies in internal control described in Part I of the accompanying Schedule of Findings 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 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-08 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, 2008 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

March 13, 2009

City of Rockwell City, Iowa

Schedule of Findings

Year ended June 30, 2008

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-08 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.

I-B-08 Preparation of Financial Statements – Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with the cash basis of accounting. The City of Rockwell City does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate this matter to those charged with governance.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with the cash basis of accounting can be considered costly and ineffective. However, it is the responsibility of the City's management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – Management feels that committing the resources to remain current on reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-08 Certified Budget – Disbursements during the year ended June 30, 2008, did not exceed the amounts budgeted.

II-B-08 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-08 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, 2008

II-D-08 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
John Hepp, Council Member owns Johns Car Clinic	Repairs	$ 482
Phil Hammen, Employee, Self-employed	Skid Loader Rental	$ 80
Paul Kutz, Council Member owns Lumber Shop	Repairs	$ 189
Brandon Lynch, Employee Self-employed	Skid Loader Rental	$ 924

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-08 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-08 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-08 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.

II-H-08 Revenue Notes/Bonds – The City's wastewater treatment system did not maintain net revenues of 110% of the principal and interest due on the sewer revenue bond as stated in the loan agreement.

Recommendation – City officials should review this to insure they are in compliance with their loan agreement.

Response – We will review this. We have increased our sewer rates and are close to being in compliance.

Conclusion – Response accepted.

II-I-08 Financial Condition – The Capital Projects Airport Phase II account had a deficit balance of $17,934 respectively at June 30, 2008.

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 and will be eliminated upon such receipt.

Conclusion – Response accepted.