

LAKE IMPROVEMENT COMMISSION
INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTARY INFORMATION
COMMENTS AND RECOMMENDATIONS

JUNE 30, 2004

Table of Contents

Independent Auditors' Report		3-4
Management's Discussion and Analysis		6-9
Basic Financial Statements:	<u>Exhibit</u>	
Statement of Activities and Net Assets – Cash Basis	A	11
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	12
Notes to Financial Statements		13-16
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance		18-19
Schedule of Findings		20-21

August 26, 2004

Independent Auditors' Report

To the Members of
Lake Improvement Commission

We have audited the accompanying financial statements of the Lake Improvement Commission, as of and for the year ended June 30, 2004. These financial statements are the responsibility of Lake Improvement Commission's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 cash basis financial position of the Lake Improvement Commission as of and for the year ended June 30, 2004, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As discussed in Note 7, during the year ended June 30, 2004, The Lake Improvement Commission adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*.

Continued...

August 26, 2004
Lake Improvement Commission
Independent Auditors' Report

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2004, on our consideration of the Lake Improvement Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 6 through 9 is not a required part of the basic financial statements, but is 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 supplementary information. However, we did not audit the information and express no opinion thereon.

LAKE IMPROVEMENT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lake Improvement Commission provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of the Lake Improvement Commission is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Commission's financial statements.

2004 FINANCIAL HIGHLIGHTS

The Commission's receipts increased approximately \$340,771, from fiscal 2003 to fiscal 2004.

The Commission's disbursements increased approximately \$961,286, from fiscal 2003 to fiscal 2004.

The Commission's net assets decreased approximately \$220,275, from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The Commission has elected to present its financial statements on a cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognized revenues, expenses and the related assets and liabilities. Under the Commission's cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in these financial statements. 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.

The annual report is presented in a format consistent with the presentation of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Commission's cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Lake Improvement Commission's basic financial statements. 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 Commission's financial activities.
- The Statement of Activities and Net Assets – Cash Basis presents information about the activities of the Commission as a whole and presents an overall view of the Commission's finances.

- The Statement of Cash Receipts, Disbursements and Changes in Net Assets – Cash Basis presents information on the Commission’s receipts and disbursements, and whether the Commission’s financial position has improved or deteriorated as a result of the year’s activities.
- The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

The purpose of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances is to present the receipts received and the disbursements paid by the Commission. A summary of cash receipts, disbursements and changes in cash balances for the years ended June 30, 2004 and 2003 is presented below.

Cash Receipts, Disbursements and Changes in Cash Balances

	Year ended June 30,	
	2004	2003
Receipts		
Interest on investments	\$ 11,198	\$ 229
Intergovernmental	529,691	425,000
Other	250,118	25,007
	791,007	450,236
Disbursements		
Equipment operations	33,354	1,073
Equipment repairs	280,890	1,094
Insurance	21,688	17,429
Contractual services	130,290	119,309
Supplies	28,987	86,091
Equipment	2,389	0
Construction costs-East Spoil Site	688,684	0
	1,186,282	224,996
Excess (deficiency) of receipts over (under) disbursements	(395,275)	225,240
Other financing sources		
Loan proceeds	175,000	0
Net change in cash balances	(220,275)	225,240
Cash balance, beginning of year	225,240	0
Cash balance, end of year	\$ 4,965	\$ 225,240

In fiscal year 2004, receipts increased \$340,771, or 76%. The increase was primarily a result of additional contributions. In fiscal year 2004, disbursements increased by \$961,286, or 427%. The increase was primarily due to the construction of the East Spoil Site.

FINANCIAL ANALYSIS OF THE COMMISSION

Net assets serve as a useful indicator of financial position. The Commission's cash balance decreased from a year ago. The analysis that follows focuses on the changes in cash balance.

Changes in Cash Basis Net Assets (Expressed in Thousands)

	Year ended June 30,	
	2004	2003
Receipts		
Program receipts:		
Operating grants and contributions	\$ 780	\$ 450
General receipts:		
Unrestricted investment earnings	11	0
Loan proceeds	175	0
	<u>966</u>	<u>450</u>
Disbursements		
General operations	<u>1,186</u>	<u>225</u>
Increase in cash basis net assets	(220)	225
Cash basis net assets beginning of year	<u>225</u>	<u>0</u>
Cash basis net assets end of year	\$ <u>5</u>	\$ <u>225</u>

LONG-TERM DEBT

At June 30, 2004, the Commission had a \$175,000 note outstanding. The note was issued during the fiscal year to finance the costs of constructing a spoil site.

ECONOMIC FACTORS

Lake Improvement Commission's net assets decreased during the current fiscal year because of the late receipt of a \$198,800 grant. The current condition of the economy in the state continues to be a concern for Commission officials because operations are contingent on the continued support from both the State and Federal Government. Some of the realities that may potentially become challenges for the Commission to meet are:

- Equipment requires constant maintenance and upkeep.
- Cash flow issues because of the dependence on contributions and timeliness of State and Federal assistance.

The Commission anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Commission's ability to react to unknown issues.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lake Improvement Commission, City of Storm Lake, Iowa.

Basic Financial Statements

**LAKE IMPROVEMENT COMMISSION
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Disbursements</u>	<u>Program Receipts</u>	<u>Net Disbursements and Changes in Cash Basis Net Assets</u>
	Operating Contributions and Grants		
Governmental activities	\$ 1,186,282	\$ 779,809	\$ (406,473)
General receipts			
Loan proceeds			175,000
Unrestricted interest on investments			11,198
Total general receipts			<u>186,198</u>
Change in cash basis net assets			(220,275)
Cash basis net assets, beginning of year			<u>225,240</u>
Cash basis net assets, end of year			\$ <u>4,965</u>
Cash basis net assets			
Unrestricted			\$ <u>4,965</u>

See Notes to Financial Statement

**LAKE IMPROVEMENT COMMISSION
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004**

Receipts:	
Use of money and property:	
Interest on investments	\$ 11,198
Intergovernmental:	
DNR Lake Restoration Grant	360,000
Contribution – City of Storm Lake	131,188
Contribution – City of Lakeside	38,503
	<u>529,691</u>
Miscellaneous:	
Contribution – Lake Preservation Association	250,000
Reimbursement	118
	<u>250,118</u>
	<u>791,007</u>
Disbursements:	
Equipment operations	33,354
Equipment repairs	280,890
Insurance	21,688
Contractual services	130,290
Supplies	28,987
Equipment	2,389
Capital outlay – East Spoil Site	688,684
	<u>1,186,282</u>
Deficiency of receipts under disbursements	(395,275)
Other financing sources:	
Loan proceeds	<u>175,000</u>
Net change in cash balance	(220,275)
Fund balance, beginning of year	<u>225,240</u>
Fund balance, end of year	<u>\$ 4,965</u>

See Notes to Financial Statement

**LAKE IMPROVEMENT COMMISSION
NOTES TO FINANCIAL STATEMENT
YEAR ENDED JUNE 30, 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lake Improvement Commission was formed in November, 2002, pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Commission is to finance and effect a continued dredging of Lake Storm Lake so as to enhance the use of the lake for water recreation, to promote fishing, and to guarantee the continued existence of this natural water resource. The second purpose is to identify effect and promote water quality/watershed projects to improve the water quality of the lake, and minimize the re-accumulation of silt.

Members of the Commission consist of the City of Storm Lake, Iowa, the City of Lakeside, Iowa, Buena Vista County, Iowa, and the Lake Preservation Association for Storm Lake, Inc. The Lake Improvement Commission is financially dependent upon member contributions.

A. Reporting Entity

For financial purposes, Lake Improvement Commission has included all funds, organizations, agencies, boards, commissions and authorities. The Commission 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 Commission are such that exclusion would cause the Commission'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 Commission 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 Commission. The Commission has no component units, which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of the Commission are organized as a Governmental Fund. Governmental fund activities are supported by intergovernmental revenues and other operating grants. The Commission has a general operating fund. All receipts are accounted for in this fund. From this fund are paid the general operating disbursements, fixed charges and capital improvement costs. All net assets are considered unrestricted.

**LAKE IMPROVEMENT COMMISSION
NOTES TO FINANCIAL STATEMENT
YEAR ENDED JUNE 30, 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Basis of Accounting

Lake Improvement Commission maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Commission 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 the financial position and results of operation of the Commission in accordance with U.S. generally accepted accounting principles.

D. Budget Information

Lake Improvement Commission is not legally required to adopt a budget.

NOTE 2 CASH AND INVESTMENTS

The Commission's deposits at June 30, 2004 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 Commission 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 Commission; 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 Commission had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

The Commission's cash at June 30, 2004, consisting of cash in bank, totaled \$4,965.

NOTE 3 RISK MANAGEMENT

According to the 28E Agreement, the Commission purchases and maintains general liability insurance covering all operations and public officials' liability insurance on behalf of its board of directors.

**LAKE IMPROVEMENT COMMISSION
NOTES TO FINANCIAL STATEMENT
YEAR ENDED JUNE 30, 2004**

NOTE 4 OPERATING LEASE AGREEMENT

In April 2003, the Commission entered into an operating lease agreement for the rental of real property. The lease requires annual cash rent of \$200/per acre for a period of six years. The Commission made a lease payment of \$7,438 during the year. Future required minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2005	\$ 7,438
2006	7,438
2007	7,438
2008	<u>7,438</u>
	<u>\$ 29,752</u>

NOTE 5 NOTES PAYABLE

The Commission has a note payable due to a local bank in annual installments of \$39,373, including interest at 4%, with final payment due June 15, 2009, secured by a security agreement. The balance due at June 30, 2004 is \$175,000. The note matures as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 32,373	\$ 7,000	\$ 39,373
2006	33,668	5,705	39,373
2007	35,014	4,359	39,373
2008	36,415	2,958	39,373
2009	<u>37,530</u>	<u>1,843</u>	<u>39,373</u>
	<u>\$ 175,000</u>	<u>\$ 21,865</u>	<u>\$ 196,865</u>

**LAKE IMPROVEMENT COMMISSION
NOTES TO FINANCIAL STATEMENT
YEAR ENDED JUNE 30, 2004**

NOTE 6 CONSTRUCTION COMMITMENTS

The Commission had the following contracts which were not complete as of June 30, 2004:

	<u>Estimated Total Contract Price</u>	<u>Paid to June 30, 2004</u>	<u>Remaining Commitment</u>	<u>Retainages Payable</u>
East Spoil Site:				
Engineer	\$ 54,740	\$ 50,244	\$ 4,496	\$ 0
Construction	927,245	688,684	<u>238,561</u>	<u>36,247</u>
			\$ <u>243,057</u>	\$ <u>36,247</u>

NOTE 7 ACCOUNTING CHANGE

For the year ended June 30, 2004, the Commission implemented Governmental Accounting Standards Board Statement No. 34, *Basis Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*.

Implementation of these standards had no effect on the beginning balances of the Commission.

NOTE 8 SUBSEQUENT EVENT

In August 2004, the Commission refinanced the \$175,000 long term loan with equal borrowings from three banks. The Commission also took out a short term loan for \$100,000 to finance dredging operations.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE**

August 26, 2004

Independent Auditors' Report on Internal Control
over Financial Reporting and on Compliance

To the Members of
Lake Improvement Commission

We have audited the financial statements of the Lake Improvement Commission, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 26, 2004. Our report expressed an unqualified opinion on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, 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 Lake Improvement Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. There were no prior year reportable conditions.

Continued...

August 26, 2004
Lake Improvement Commission
Report on Internal Control and Compliance

Compliance

As part of obtaining reasonable assurance about whether Lake Improvement Commission's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 material instances of non-compliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Commission's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Commission. Since our audit was based on test 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.

This report, a public record by law, is intended solely for the information and use of the members of Lake Improvement Commission and other parties to whom the Commission may report. 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 Lake Improvement Commission 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.

**LAKE IMPROVEMENT COMMISSION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No comments or recommendations.

**LAKE IMPROVEMENT COMMISSION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004**

OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

- (1) Official Depositories – A resolution naming official depositories has been approved by the Commission. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- (2) Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of Commission money for travel expenses of spouses of Commission officials or employees were noted.
- (4) Commission Minutes – No transactions were found that we believe should have been approved in the Commission minutes but were not.
- (5) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Commission’s investment policy were noted.

NEWS RELEASE

Schroer & Associates, P.C. released an audit report on the Lake Improvement Commission.

The Commission had total receipts of \$791,007 during the year ended June 30, 2004, which included intergovernmental and other contributions of \$779,691.

Disbursements totaled \$1,186,282 for the year ended June 30, 2004, which included \$688,684 for construction costs.

A copy of the audit report is available for review in the Office of Auditor of State and at the Lake Improvement Commission.

October 4, 2004

Lake Improvement Commission
City of Storm Lake
PO Box 1086
620 Erie Street
Storm Lake, IA 50588

Dear Paul;

Enclosed is a draft for the Lake Improvement Commission without the M D & A. Also enclosed is a start of the M D & A that needs more of Management's Analysis done – see the parts in red that now are just sample information. Feel free to change whatever you want. Also, is it possible to get a copy of the minutes of those meetings?

If you have any questions please give me a call.

Thanks,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/jb
Enc.