

CITY OF STORM LAKE
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006

Table of Contents

	<u>Page</u>
Officials	4
Independent Auditors' Report	5-6
Management's Discussion and Analysis	7-13
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A 15-16
Statement of Activities	B 17-18
Governmental Fund Financial Statements:	
Balance Sheet	C 19-20
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	D 21
Statement of Revenues, Expenditures and Changes in Fund Balances	E 22-23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F 24
Proprietary Fund Financial Statements:	
Statement of Net Assets	G 25-26
Reconciliation of the Statement of Net Assets – Enterprise Funds to the Statement of Net Assets	H 27
Statement of Revenues, Expenses and Changes in Fund Net Assets	I 28-29
Reconciliation of the Statement of Revenues, Expenses and Changes in Fund Net Assets – Enterprise Funds to the Statement of Activities	J 30
Statement of Cash Flows	K 31-34
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets	L 35
Statement of Changes in Fiduciary Net Assets	M 36
Notes to Financial Statements	37-56
Required Supplementary Information:	<u>Schedule</u>
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	58-59
Budget to GAAP Reconciliation	60-61
Notes to Required Supplementary Information – Budgetary Reporting	62
Other Supplementary Information:	
Nonmajor Governmental Funds:	
Combining Balance Sheet	1 64-65
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2 66-67
Nonmajor Enterprise Funds:	
Combining Statement of Net Assets	3 68
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	4 69
Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund	5 70

Table of Contents - Continued

Other Supplementary Information (Continued):	<u>Schedule</u>	
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	6	71
Schedule of Expenditures of Federal Awards	7	72
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>		75-76
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133		78-79
Schedule of Findings and Questioned Costs		80-84

City of Storm Lake

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Jon Kruse	Mayor	January 2006
Wally Burns	Mayor Pro Tem	January 2008
James Treat	Council Member	January 2006
Dennis Vaudt	Council Member	January 2006
Julie Eglund	Council Member	January 2008
Sara Monroy-Huddleston	Council Member	January 2008
Patti Moore	City Administrator	Indefinite
Justin Yarosevich	City Clerk	Indefinite
Paul Havens	Attorney	Indefinite

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(After January 2006)		
Jon Kruse	Mayor	January 2010
Dennis Vaudt	Mayor Pro Tem	January 2010
Wally Burns	Council Member	January 2008
Julie Eglund	Council Member	January 2008
Sara Monroy-Huddleston	Council Member	January 2008
James Treat	Council Member	January 2010
Patti Moore	City Administrator	Indefinite
Justin Yarosevich	City Clerk	Indefinite
Paul Havens	Attorney	Indefinite

August 29, 2006

Independent Auditors' 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 Storm Lake, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Storm Lake's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Storm Lake at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 29, 2006 on our consideration of the City of Storm Lake'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 testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Continued...

Independent Auditor's Report
City of Storm Lake

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 58 through 62 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 supplementary information. However, 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 Storm Lake'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, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Storm Lake provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Total revenues for the City increased 22.6%, or approximately \$2,470,446, from FY05 to FY06. Most of this increase came from private contributions and grants for Project AWAYSIS. Property tax revenues also increased approximately \$228,772.
- Program expenses increased 10%, or approximately \$916,607, in FY06 from FY05. Culture and Recreation expenses decreased approximately \$171,614, while public safety, public works and water program expenses increased approximately \$121,024, \$231,338 and \$241,220 respectively.
- The City's net assets increased 11.2%, or approximately \$3,289,422, from June 30, 2005 to June 30, 2006. Of this amount, the net assets of the governmental activities decreased approximately \$4,411,498 and the net assets of the business type activities increased by approximately \$7,700,920. The majority of the increase in net assets is the result of the construction of King's Pointe and the Water Parks.

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.

Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the City as a whole and present 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 statements 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 non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference between the two reported as "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 presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Activities report 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, the sanitary sewer system, storm water, lodge and the City's sanitation department. 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. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Tax Increment Financing Revenues, Local Option Sales Tax and Payroll Tax Levy, 3) the Debt Service Fund and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental 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 balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) Proprietary funds account for the City's Enterprise Funds. These funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The Enterprise Funds include the Water,

Wastewater, Storm Water, Lodge and Sanitation Funds, each considered to be a major fund of the City. The City is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental and business type activities.

Statement of Net Assets						
	2005	2006	2005	2006	2005	2006
	Governmental	Governmental	Business Type	Business Type	2005	2006
	Activities	Activities	Activities	Activities	Total	Total
Current and other assets	\$ 14,814,600	13,645,565	6,456,774	11,451,869	21,271,374	25,097,434
Capital assets	10,556,659	13,454,439	16,199,082	18,751,201	26,755,741	32,205,640
Total assets	25,371,259	27,100,004	22,655,856	30,203,070	48,027,115	57,303,074
Long-term liabilities	6,173,755	11,763,438	7,353,117	7,077,880	13,526,872	18,841,318
Other liabilities	4,644,873	5,195,433	357,261	478,792	5,002,134	5,674,225
Total liabilities	10,818,628	16,958,871	7,710,378	7,556,672	18,529,006	24,515,543
Net assets:						
Invested in capital assets, net of related debt	9,858,530	5,021,523	9,051,792	11,727,680	18,910,322	16,749,203
Restricted	3,242,724	3,764,690	3,459,013	8,383,298	6,701,737	12,147,988
Unrestricted	1,451,377	1,354,920	2,434,673	2,535,420	3,886,050	3,890,340
Total net assets	\$ 14,552,631	10,141,133	14,945,478	22,646,398	29,498,109	32,787,531

Total net assets increased from FY05 by approximately \$3,289,422, or 11.2%. The largest portion of the City's net assets are invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$3,890,340 at the end of this year.

Statement of Activities

	2005	2006	2005	2006	2005	2006
	Governmental	Governmental	Business Type	Business Type	2005	2006
	Activities	Activities	Activities	Activities	Total	Total
Revenues:						
Program revenues:						
Charges for service	650,058	588,776	3,746,488	4,053,611	4,396,546	4,642,387
Operating grants, contributions and restricted interest	1,389,963	1,379,470	76,687	-	1,466,650	1,379,470
Capital grants, contributions and restricted interest	1,410,861	1,569,477	-	1,726,227	1,410,861	3,295,704
General revenues:						
Property tax levied for:						
General purposes	1,913,223	1,924,592	-	-	1,913,223	1,924,592
Employee Benefits	720,445	593,848	-	-	720,445	593,848
Debt Service	47,469	391,469	-	-	47,469	391,469
Tax increment financing	36,460	84,850	-	-	36,460	84,850
Local option sales tax	793,992	836,898	-	-	793,992	836,898
Grants and contributions not restricted to specific purpose	-	-	-	-	-	-
Unrestricted investment earnings	42,633	93,048	125,638	177,671	168,271	270,719
Miscellaneous	287	4,713	-	-	287	4,713
Transfers	(1,465,961)	(6,336,613)	1,465,961	6,336,613	-	-
Total Revenues	5,539,430	1,130,528	5,414,774	12,294,122	10,954,204	13,424,650
Program expenses:						
Public Safety	1,957,298	2,078,322	-	-	1,957,298	2,078,322
Public Works	823,169	1,054,507	-	-	823,169	1,054,507
Health and Social Services	9,034	10,700	-	-	9,034	10,700
Culture and Recreation	1,339,198	1,167,584	-	-	1,339,198	1,167,584
Community and Economic Development	469,857	569,014	-	-	469,857	569,014
General Government	334,061	391,026	-	-	334,061	391,026
Interest on long-term debt	47,455	270,873	-	-	47,455	270,873
Water	-	-	2,291,259	2,532,479	2,291,259	2,532,479
Wastewater	-	-	1,574,704	1,633,672	1,574,704	1,633,672
Sanitation	-	-	345,756	344,822	345,756	344,822
Storm Water	-	-	26,766	82,100	26,766	82,100
Lodge	-	-	64	129	64	129
Total Expenses	4,980,072	5,542,026	4,238,549	4,593,202	9,218,621	10,135,228
Change in net assets	559,358	(4,411,498)	1,176,225	7,700,920	1,735,583	3,289,422
Net assets beginning of year	13,993,273	14,552,631	13,769,253	14,945,478	27,762,526	29,498,109
Net assets end of year	14,552,631	10,141,133	14,945,478	22,646,398	29,498,109	32,787,531

INDIVIDUAL MAJOR FUND ANALYSIS

Governmental Fund Highlights

As the City of Storm Lake completed the year, its governmental funds reported a combined fund balance of \$7,878,311, which is down from the \$9,440,001 total fund balance at June 30, 2005. The following are the major reasons for the changes in fund balances of the major governmental funds from the prior year.

The General Fund is the chief operating fund of the City. This fund showed a decrease of \$45,782 from the prior year to \$905,455.

The Road Use Tax Fund accounts for revenue received from the State of Iowa for road improvements. This fund decreased by \$3,640 from the prior year to \$383,944.

The Special Levy Fund is used to account for the property tax levied to finance the payment of employee benefits. This fund decreased by \$36,146 from the prior year to \$167,816. It has been suggested through previous audits that the City lower its fund balance in this fund. The City did this by not levying the full cost of employee benefits for the year.

The Local Option Sales Tax Fund accounts for revenue from the tax authorized by referendum and used for capital improvements. This fund increased by \$247,513 from the prior year to \$686,501. Local Option Sales Tax revenues increased by \$54,617 in fiscal year 2006.

The Debt Service Fund decreased by \$138,157 from the prior year to \$18,043. This decrease was a result of using fund balance to call bonds early.

The Capital Projects Fund decreased by \$1,608,002 from the prior year to \$4,921,266. The large decrease in fund balance is a result of using bond proceeds from the previous year on Project AWAYSIS expenditures.

Proprietary Fund Highlights

The Water Fund, which accounts for the operation and maintenance of the City's water system, ended FY06 with a \$6,103,243 net asset balance compared to the prior year ending net asset balance of \$6,432,538.

The Wastewater Fund, which accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system, ended FY06 with a \$5,971,884 net asset balance compared to the prior year ending net asset balance of \$6,555,878.

The Lodge Fund, which accounts for the operation and maintenance of King's Pointe Water Park Resort, ended FY06 with a \$9,591,072 net asset balance.

The Landfill Fund has been combined with the Storm Water Fund, and is listed as Other Nonmajor Enterprise. The combination of these funds ended FY06 with a \$773,058 net asset balance compared to the prior year ending net asset balance of \$794,979. The Lodge Fund was removed from this group in FY06 and is listed separately.

The Internal Service Funds are used by management to charge the cost of employee health benefits and fleet purchases to the individual funds. The change in net assets of the Internal Service Fund totaled \$(25,220). Of this \$(6,581) is reported with Enterprise Funds and \$(18,639) is reported with Governmental Funds.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City of Storm Lake amended its budget once in May 2006. This amendment was needed to cover unplanned disbursements, including disbursements associated with projects carried over from the prior fiscal year.

The combined tax levy for the City of Storm Lake in FY06 increased \$1.31 to \$13.33 per thousand. The Debt Service Levy increased \$1.32 to cover the costs of the Outdoor Water Park. The combined effect of the City's tax levy and the increased residential rollback on a \$100,000 home was \$57.00 a year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets include land, buildings and improvements, equipment, streets, sewer systems, lighting systems, traffic signals and other infrastructure. Capital assets for governmental activities totaled \$13,454,439 (net of accumulated depreciation) at June 30, 2006. Capital assets for business type activities totaled \$18,751,201 (net of accumulated depreciation) at June 30, 2006. See Note 3 to the financial statements for more information about the City's capital assets.

The major capital outlays for governmental activities during the year included Project AWAYSIS, Housing Rehab Program, West 7th Street Building Repairs, C-49, 90th Ave and the 2005 Street Improvement project. For business type activities, major capital outlays included Well Service for 3, 4 and 8, Shallow Well #18, Storm Water Improvements, Water Tower Removal, and the Lodge Construction.

Construction in progress at June 30, 2006 for governmental activities consists primarily of project AWAYSIS. Construction in progress at June 30, 2006 for business type activities consists of the Water Plant Expansion.

Long-Term Debt

At June 30, 2006, the City had \$11,763,438 in total long-term debt outstanding for governmental activities. The City issued \$6,000,000 in GO Bonds for Project AWAYSIS in FY06. The GO Bonds mature in varying annual amounts ranging from \$130,000 to \$390,000 and have an interest rate of 5.25% to 5.70% with the final maturity due in the year ending June 30, 2025 with a balloon payment of \$2,330,000.

The Local Option Sales Tax Bonds for the police facility were paid off in the year ending June 30, 2006.

The final installment for the General Obligation Notes issued for the fire truck is due in the amount of \$19,433 including interest at 5.44% during the year ending June 30, 2007.

Total long-term debt outstanding for business type activities was \$7,032,445 at June 30, 2006.

The Water Revenue Capital Loan Notes for the Water Plant Expansion bears interest at 3% and matures in varying annual amounts ranging from \$279,000 to \$490,000, with the final maturity due in the year ending June 30, 2024.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. Even with adding \$6,000,000 in GO Bonds during the year, the City's outstanding general obligation debt of \$11,503,431 is significantly below its constitutional debt limit of \$16,343,794.

Other obligations not affecting the City's debt limit include accrued vacation pay and sick leave.

Additional information about the City's long-term debt is presented in Note 6 to the financial statements.

ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE

Several economic factors affected decisions made by the City in setting its FY06 budget. The residential rollback increased for FY07 to 46% from 48% and the commercial rollback increased for FY07 to 99.2% from 100%, which has a negative effect on property tax revenue. The State estimate for Road Use Tax Revenues is projected to increase slightly from FY 2005-2006 to \$83.80 per capita in FY 2006-2007. The Fleet Program was eliminated for FY 2006-2007 and the program is being reviewed in an effort to maximize efficiencies in order to re-instate the program.

The tax levy rates per \$1,000 of taxable valuation for FY07 are provided below:

<i>General Levy</i>	\$	8.10000
<i>Tort Levy</i>		0.35986
<i>Emergency Levy</i>		0.27000
<i>Debt Service Levy</i>		1.32198
<i>Special Levy</i>		3.43395
<hr/>		
<i>Total</i>	\$	13.48578

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities. If you have any questions or require additional information please contact the Finance Director, 620 Erie Street, City of Storm Lake, Iowa or by phone (712) 732-8000.

Basic Financial Statements

City of Storm Lake
Statement of Net Assets
June 30, 2006

	Governmental Activities	Business Type Activities	Total
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and cash equivalents	\$ 2,692,356	4,981	2,697,337
Investments	6,223,822	2,239,476	8,463,298
Receivables:			
Property tax:			
Delinquent	53,064	-	53,064
Succeeding year	2,814,681	-	2,814,681
Tax increment financing:			
Delinquent	401	-	401
Succeeding year	79,646	-	79,646
Pledges	1,223,063	-	1,223,063
Customer accounts and unbilled usage	-	506,028	506,028
Accounts	8,439	-	8,439
Accrued interest	61,138	49,898	111,036
Due from other governments	342,647	970,328	1,312,975
Inventories	44,498	34,735	79,233
Prepaid expenses	101,810	79,941	181,751
Restricted assets:			
Investments	-	7,499,294	7,499,294
Capital assets (net of accumulated depreciation)	13,454,439	18,751,201	32,205,640
Other assets:			
Loan fees, net of accumulated amortization	-	67,188	67,188
Total assets	<u>27,100,004</u>	<u>30,203,070</u>	<u>57,303,074</u>
Liabilities			
Cash due bank	759,463	260,181	1,019,644
Accounts payable	47,821	102,316	150,137
Accrued interest payable	148,591	17,088	165,679
Salaries and benefits payable	85,907	19,393	105,300
Incurred and unpaid claims	12,138	3,843	15,981
Contracts payable	123,669	75,971	199,640
Matured bonds payable	5,000	-	5,000
Matured interest payable	4,988	-	4,988
Deferred revenue:			
Succeeding year property tax	2,814,681	-	2,814,681
Succeeding year tax increment financing	79,646	-	79,646
Pledges	1,113,529	-	1,113,529
Long-term liabilities:			
Portion due or payable within one year:			
Customer deposits	-	45,435	45,435
General obligation bonds/notes	148,431	-	148,431
Revenue notes payable	-	296,000	296,000
Compensated absences	101,403	39,865	141,268
Portion due or payable after one year:			
General obligation bonds/notes	11,355,000	-	11,355,000
Revenue notes payable	-	6,634,228	6,634,228
Compensated absences	158,604	62,352	220,956
Total liabilities	<u>16,958,871</u>	<u>7,556,672</u>	<u>24,515,543</u>

City of Storm Lake
 Statement of Net Assets - Continued
 June 30, 2006

	Governmental Activities	Business Type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	\$ 5,021,523	11,727,680	16,749,203
Restricted for:			
Road purposes	383,944	-	383,944
Special levy	171,466	-	171,466
Local option sales tax	686,501	-	686,501
Debt service	(123,905)	471,991	348,086
Capital projects	1,850,751	-	1,850,751
Revenue note retirement	-	500,000	500,000
Water improvements	-	940,074	940,074
Wastewater improvement	-	637,195	637,195
Storm sewer improvements	-	344,043	344,043
Lodge construction	-	5,489,995	5,489,995
Other purposes	795,933	-	795,933
Unrestricted	1,354,920	2,535,420	3,890,340
Total net assets	\$ 10,141,133	22,646,398	32,787,531

See notes to financial statements.

City of Storm Lake

Statement of Activities

Year ended June 30, 2006

	<u>Expenses</u>	<u>Program</u> Charges for Service
Functions / Programs:		
Governmental activities:		
Public safety	\$ 2,078,322	54,661
Public works	1,054,507	257,215
Health and social services	10,700	-
Culture and recreation	1,167,584	243,185
Community and economic development	569,014	2,440
General government	391,026	31,275
Interest on long-term debt	<u>270,873</u>	<u>-</u>
Total governmental activities	5,542,026	588,776
Business type activities:		
Water	2,532,479	2,409,334
Wastewater	1,633,672	1,247,857
Landfill	344,822	371,751
Storm sewer	82,100	24,669
Lodge	<u>129</u>	<u>-</u>
Total business type activities	4,593,202	4,053,611
Total	<u>\$ 10,135,228</u>	<u>4,642,387</u>

General Revenues:

Property and other city tax levied for:
General purposes
Employee benefits
Debt service
Tax increment financing
Local option sales tax
Grants and contributions not restricted to specific purpose
Unrestricted interest on investment
Miscellaneous
Transfers
Total general revenues

Change in net assets

Net assets, beginning of year

Net assets, end of year

See notes to financial statements

Revenues		Net (Expense) Revenue and Changes in Net Assets		
Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
102,973	7,413	(1,913,275)	-	(1,913,275)
1,015,852	126,020	344,580	-	344,580
-	-	(10,700)	-	(10,700)
73,173	1,092,073	240,847	-	240,847
151,100	213,563	(201,911)	-	(201,911)
34,238	130,408	(195,105)	-	(195,105)
2,134	-	(268,739)	-	(268,739)
<u>1,379,470</u>	<u>1,569,477</u>	<u>(2,004,303)</u>	-	<u>(2,004,303)</u>
-	-	-	(123,145)	(123,145)
-	-	-	(385,815)	(385,815)
-	-	-	26,929	26,929
-	-	-	(57,431)	(57,431)
-	<u>1,726,227</u>	-	<u>1,726,098</u>	<u>1,726,098</u>
-	<u>1,726,227</u>	-	<u>1,186,636</u>	<u>1,186,636</u>
<u>1,379,470</u>	<u>3,295,704</u>	<u>(2,004,303)</u>	<u>1,186,636</u>	<u>(817,667)</u>
		\$ 1,924,592	-	1,924,592
		593,848	-	593,848
		391,469	-	391,469
		84,850	-	84,850
		836,898	-	836,898
		93,048	177,671	270,719
		4,713	-	4,713
		<u>(6,336,613)</u>	<u>6,336,613</u>	<u>-</u>
		<u>(2,407,195)</u>	<u>6,514,284</u>	<u>4,107,089</u>
		(4,411,498)	7,700,920	3,289,422
		<u>14,552,631</u>	<u>14,945,478</u>	<u>29,498,109</u>
		\$ <u>10,141,133</u>	<u>22,646,398</u>	<u>32,787,531</u>

City of Storm Lake
Balance Sheet
Governmental Funds

June 30, 2006

			Special
	General	Road Use	Special Levy
Assets			
Cash and cash equivalents	\$ -	-	-
Investments	1,628,154	324,075	116,066
Receivables:			
Property tax:			
Delinquent	29,643	-	10,492
Succeeding year	1,688,828	-	715,688
Tax increment financing:			
Delinquent	-	-	-
Succeeding year	-	-	-
Accounts	8,439	-	-
Accrued interest	19,378	-	-
Pledges	-	-	-
Due from other governments	9,236	65,723	-
Inventories	37,648	2,566	-
Prepaid expenditures	2,090	-	51,340
Total assets	\$ 3,423,416	392,364	893,586
Liabilities and Fund Balances			
Liabilities:			
Cash due bank	\$ 756,549	-	-
Accounts payable	402	15	-
Salaries and benefits payable	61,874	8,405	6,432
Contracts payable	-	-	-
Matured bonds payable	-	-	-
Matured interest payable	-	-	-
Deferred revenue:			
Succeeding year property tax	1,688,828	-	715,688
Succeeding year tax increment financing	-	-	-
Other	10,308	-	3,650
Total liabilities	2,517,961	8,420	725,770
Fund Balances:			
Reserved for debt service	-	-	-
Unreserved:			
Designated for:			
Cash flow/operating	785,000	-	-
Undesignated:			
Reported in:			
General fund	120,455	-	-
Special revenue funds	-	383,944	167,816
Capital projects fund	-	-	-
Permanent fund	-	-	-
Total fund balances	905,455	383,944	167,816
Total liabilities and fund balances	\$ 3,423,416	392,364	893,586

See notes to financial statements

<u>Revenue</u>				
<u>Local Option Sales Tax</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Nonmajor Governmental</u>	<u>Total</u>
-	-	2,675,870	-	2,675,870
552,131	23,336	2,144,578	749,820	5,538,160
-	11,068	-	1,861	53,064
-	278,893	-	131,272	2,814,681
-	-	-	401	401
-	-	-	79,646	79,646
-	-	-	-	8,439
6,553	270	25,453	1,700	53,354
-	-	1,223,063	-	1,223,063
127,817	-	139,871	-	342,647
-	-	-	-	40,214
-	-	177	48,203	101,810
<u>686,501</u>	<u>313,567</u>	<u>6,209,012</u>	<u>1,012,903</u>	<u>12,931,349</u>
-	-	-	-	756,549
-	-	47,404	-	47,821
-	-	3,144	6,052	85,907
-	-	123,669	-	123,669
-	5,000	-	-	5,000
-	4,988	-	-	4,988
-	-	-	-	-
-	278,893	-	131,272	2,814,681
-	-	-	79,646	79,646
-	6,643	1,113,529	647	1,134,777
-	295,524	1,287,746	217,617	5,053,038
-	18,043	-	-	18,043
-	-	-	-	785,000
-	-	-	-	120,455
686,501	-	-	792,632	2,030,893
-	-	4,921,266	-	4,921,266
-	-	-	2,654	2,654
<u>686,501</u>	<u>18,043</u>	<u>4,921,266</u>	<u>795,286</u>	<u>7,878,311</u>
<u>686,501</u>	<u>313,567</u>	<u>6,209,012</u>	<u>1,012,903</u>	<u>12,931,349</u>

City of Storm Lake

Reconciliation of the Balance Sheet –
Governmental Funds to the Statement of Net Assets

June 30, 2006

Total governmental fund balances \$ 7,878,311

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds. The costs of assets is \$20,021,140, and the accumulated depreciation is \$6,566,701. 13,454,439

Other long-term assets are not available to pay current period expenditures, and therefore, are deferred in the funds. 21,248

The Internal Service Funds are used by management to charge the cost of employee health benefits and fleet purchases to the individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. 699,164

Long-term liabilities, including bonds payable, compensated absences and accrued interest payable, are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. (11,912,029)

Net assets of governmental activities \$ 10,141,133

See notes to financial statements

City of Storm Lake

Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2006

	General	Road Use	Special Levy
Revenues:			
Property tax	\$ 1,595,818	-	564,458
Tax increment financing	-	-	-
Other tax	90,123	-	31,892
Licenses and permits	109,485	-	-
Use of money and property	299,538	-	-
Intergovernmental	112,004	843,152	-
Charges for services	430,791	-	-
Special assessments	-	-	-
Miscellaneous	37,286	3,066	4,703
Total revenues	<u>2,675,045</u>	<u>846,218</u>	<u>601,053</u>
Expenditures:			
Current operating:			
Public safety	1,486,719	-	247,178
Public works	290,777	554,115	76,317
Health and social services	10,700	-	-
Culture and recreation	732,609	-	88,348
Community and economic development	60,216	-	-
General government	185,909	-	26,802
Debt service	-	-	-
Capital projects	-	-	-
Total expenditures	<u>2,766,930</u>	<u>554,115</u>	<u>438,645</u>
Excess (deficiency) of revenues over (under) expenditures	(91,855)	292,103	162,408
Other financing sources (uses):			
Operating transfers in	56,103	-	-
Operating transfers out	(10,000)	(295,743)	(198,554)
	<u>46,103</u>	<u>(295,743)</u>	<u>(198,554)</u>
Net change in fund balances	(45,782)	(3,640)	(36,146)
Fund balances, beginning of year	<u>951,237</u>	<u>387,584</u>	<u>203,962</u>
Fund balances, end of year	<u>\$ 905,455</u>	<u>383,944</u>	<u>167,816</u>

See notes to financial statement

Revenue				
Local Option Sales Tax	Debt Service	Capital Projects	Other Nonmajor Governmental	Total
-	365,080	-	100,209	2,625,565
-	-	-	84,850	84,850
836,898	20,627	-	153,050	1,132,590
-	-	-	-	109,485
28,483	2,134	357,917	5,309	693,381
-	-	485,871	94,462	1,535,489
-	-	-	-	430,791
-	-	-	-	-
-	-	725,689	95,594	866,338
<u>865,381</u>	<u>387,841</u>	<u>1,569,477</u>	<u>533,474</u>	<u>7,478,489</u>
-	-	-	13,946	1,747,843
-	-	-	-	921,209
-	-	-	-	10,700
-	-	-	16,236	837,193
-	-	-	276,565	336,781
-	-	-	60,461	273,172
-	570,555	-	-	570,555
-	-	3,807,559	-	3,807,559
<u>-</u>	<u>570,555</u>	<u>3,807,559</u>	<u>367,208</u>	<u>8,505,012</u>
865,381	(182,714)	(2,238,082)	166,266	(1,026,523)
-	290,507	1,401,843	2,700	1,751,153
(617,868)	(245,950)	(771,763)	(146,442)	(2,286,320)
<u>(617,868)</u>	<u>44,557</u>	<u>630,080</u>	<u>(143,742)</u>	<u>(535,167)</u>
247,513	(138,157)	(1,608,002)	22,524	(1,561,690)
<u>438,988</u>	<u>156,200</u>	<u>6,529,268</u>	<u>772,762</u>	<u>9,440,001</u>
<u>686,501</u>	<u>18,043</u>	<u>4,921,266</u>	<u>795,286</u>	<u>7,878,311</u>

City of Storm Lake

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances -
Governmental Funds to the Statement of Activities

Year ended June 30, 2006

Net change in fund balances – Total government funds \$ (1,561,690)

*Amounts reported for governmental activities in the
Statement of Activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditure for capital assets	\$ 3,558,457	
Depreciation expense	(603,573)	
Loss on disposal of capital assets	<u>(57,104)</u>	
		2,897,780

Because some revenues will not be collected for several months after the City's year end, they are not considered available revenues and are deferred in the governmental funds, as follows:

Property tax		(11,348)
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The Internal Service Fund is used by management to charge the cost of employee health benefits and fleet purchases to the Individual funds. The change in net assets of the Internal Service Fund are included in governmental activities.

(18,639)

Bond proceeds is an other financing source in the governmental funds, but the proceeds increase liabilities in the Statement of Net Assets

(6,000,000)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

427,600

Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds, as follows:

Compensated absences	(17,283)	
Interest on long-term debt	<u>(127,918)</u>	
		<u>(145,201)</u>

Change in net assets of governmental activities \$ (4,411,498)

See notes to financial statements

City of Storm Lake
Statement of Net Assets
Proprietary Funds

June 30, 2006

	Enterprise	
	Water	Wastewater
Assets		
Cash and cash equivalents	\$ -	-
Investments	1,048,063	711,056
Receivables:		
Customer accounts and unbilled usage	268,443	167,426
Accrued interest	23,465	15,913
Due from other governments	-	-
Inventories	31,986	123
Prepaid expenses	40,583	38,101
Restricted and designated assets:		
Investments	1,474,483	629,721
Capital assets, net of accumulated depreciation	10,242,250	4,654,648
Other assets:		
Loan fees, net of accumulated amortization	67,188	-
	<u>\$ 13,196,461</u>	<u>6,216,988</u>
Liabilities and Net Assets		
Liabilities:		
Cash due bank	\$ -	194,903
Accounts payable	17,266	76
Incurred but not reported claims	-	-
Salaries and benefits payable	10,457	8,133
Payable from restricted assets:		
Contracts payable	20,000	-
Customer deposits	45,435	-
Revenue notes payable	-	-
Accrued interest payable	17,088	-
Compensated absences	20,570	16,377
Long-term liabilities:		
Revenue notes payable	6,930,228	-
Compensated absences	32,174	25,615
Total liabilities	<u>7,093,218</u>	<u>245,104</u>
Net Assets:		
Invested in capital assets, net of related debt	3,359,210	4,654,648
Restricted for:		
Revenue note retirement	500,000	-
Debt service	-	-
Unrestricted:		
Designated for:		
Water improvement	940,074	-
Wastewater improvement	-	637,195
Storm sewer improvement	-	-
Lodge construction	-	-
Undesignated	1,303,959	680,041
Total net assets	<u>6,103,243</u>	<u>5,971,884</u>
	<u>\$ 13,196,461</u>	<u>6,216,988</u>

See notes to financial statements

Exhibit G

Funds			Internal Service Funds
Lodge	Other Nonmajor	Total	Total
-	-	-	21,467
-	277,139	2,036,258	888,880
-	70,159	506,028	-
-	8,078	47,456	10,226
970,328	-	970,328	-
-	1,375	33,484	5,535
-	1,257	79,941	-
4,991,658	403,432	7,499,294	-
3,769,760	84,543	18,751,201	-
-	-	67,188	-
<u>9,731,746</u>	<u>845,983</u>	<u>29,991,178</u>	<u>926,108</u>
193	64,177	259,273	3,822
84,510	464	102,316	-
-	-	-	15,981
-	803	19,393	-
55,971	-	75,971	-
-	-	45,435	-
-	-	17,088	-
-	2,918	39,865	-
-	-	6,930,228	-
-	4,563	62,352	-
<u>140,674</u>	<u>72,925</u>	<u>7,551,921</u>	<u>19,803</u>
3,629,279	84,543	11,727,680	-
-	-	500,000	-
471,991	-	471,991	-
-	-	940,074	-
-	-	637,195	-
-	344,043	344,043	-
5,489,995	-	5,489,995	-
(193)	344,472	2,328,279	906,305
<u>9,591,072</u>	<u>773,058</u>	<u>22,439,257</u>	<u>906,305</u>
<u>9,731,746</u>	<u>845,983</u>	<u>29,991,178</u>	<u>926,108</u>

City of Storm Lake

Reconciliation of the Statement of Net Assets –
Enterprise Funds to the Statement of Net Assets

June 30, 2006

Total enterprise fund net assets \$ 22,439,257

*Amounts reported for business type activities in the Statement
of Net Assets are different because:*

The Internal Service Funds are used by management to charge the cost of partial self funding on the City's health insurance benefit plan to individual funds and the cost of fleet purchases to the individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

207,141

Net assets of business type activities \$ 22,646,398

See notes to financial statement

City of Storm Lake

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2006

	<u>Enterprise</u>	
	<u>Water</u>	<u>Wastewater</u>
Operating revenues:		
Charges for services	\$ 2,266,560	1,239,760
Miscellaneous	142,774	8,097
Total operating revenues	<u>2,409,334</u>	<u>1,247,857</u>
Operating expenses:		
Governmental activities:		
Public safety	-	-
Public works	-	-
Culture and recreation	-	-
Community and economic development	-	-
General government	-	-
Business type activities		
Cost of sales and service	1,645,957	1,168,816
Depreciation and amortization	650,111	461,262
Total operating expenses	<u>2,296,068</u>	<u>1,630,078</u>
Operating income (loss)	113,266	(382,221)
Nonoperating income (expense):		
Interest income	91,328	58,227
Interest expense	(233,889)	-
Miscellaneous	-	-
	<u>(142,561)</u>	<u>58,227</u>
Income (loss) before other financing sources (uses)	(29,295)	(323,994)
Other financing sources (uses)	-	-
General obligation bond proceeds	(300,000)	(260,000)
Transfers from (to) other funds	(300,000)	(260,000)
Change in net assets	(329,295)	(583,994)
Net assets, beginning of year	<u>6,432,538</u>	<u>6,555,878</u>
Net assets, end of year	<u>\$ 6,103,243</u>	<u>5,971,884</u>

See notes to financial statement

Exhibit I

Funds			Internal Service Funds
Lodge	Other Nonmajor Enterprise	Total	Total
-	396,110	3,902,430	563,315
-	310	151,181	1,598
-	396,420	4,053,611	564,913
-	-	-	232,708
-	-	-	140,437
-	-	-	74,114
-	-	-	-
-	-	-	15,360
-	-	-	-
129	424,385	3,239,287	163,322
-	2,072	1,113,445	-
129	426,457	4,352,732	625,941
(129)	(30,037)	(299,121)	(61,028)
-	28,116	177,671	35,808
-	-	(233,889)	-
1,726,227	-	1,726,227	-
1,726,227	28,116	1,670,009	35,808
1,726,098	(1,921)	1,370,888	(25,220)
6,000,000	-	6,000,000	-
916,613	(20,000)	336,613	-
6,916,613	(20,000)	6,336,613	-
8,642,711	(21,921)	7,707,501	(25,220)
948,361	794,979	14,731,756	931,525
9,591,072	773,058	22,439,257	906,305

City of Storm Lake

Reconciliation of the Statement of Revenues, Expenses and
Changes in Fund Balances -
Enterprise Funds to the Statement of Activities

Year ended June 30, 2006

Net change in net assets – Total enterprise funds	\$ 7,707,501
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Amounts reported for business type activities in the Statement of Activities are different because:

The Internal Service Fund is used by management to charge the cost of employee health benefits and fleet purchases to the individual funds. The change in net assets of the Internal Service Fund is reported with business type activities.

(6,581)

Change in net assets of business type activities	\$ <u>7,700,920</u>
---------------------------------------------------------	---------------------

City of Storm Lake
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2006

	Enterprise	
	Water	Wastewater
Cash flows from operating activities:		
Cash received from customers and users	\$ 2,371,112	1,203,797
Cash received from operating funds	-	-
Cash received from other revenues	-	-
Cash paid for personal services	(310,918)	(245,215)
Cash paid to employees for claims	-	-
Cash paid to suppliers	(1,318,574)	(918,235)
Net cash provided (used) by operating activities	741,620	40,347
Cash flows from noncapital financing activities:		
Advances (to) from other funds	(300,000)	(260,000)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(80,317)	(63,418)
Grant proceeds	-	-
Loan proceeds	-	-
Loan payments	(288,000)	-
Interest payments	(234,599)	-
Net cash provided (used) by capital and related financing activities	(602,916)	(63,418)
Cash flows from investing activities:		
Proceeds from sale of investments	275,198	1,291,965
Purchase of investments	-	(1,263,079)
Interest on investments	95,781	59,282
Net cash provided (used) by investing activities	370,979	88,168
Net increase (decrease) in cash and cash equivalents	209,683	(194,903)
Cash and cash equivalents, beginning of year	(209,683)	-
Cash and cash equivalents, end of year	\$ -	(194,903)

See notes to financial statements

Funds			Internal Service Funds
<u>Lodge</u>	<u>Other Nonmajor Enterprise</u>	<u>Total</u>	<u>Total</u>
-	372,246	3,947,155	-
-	-	-	529,121
-	-	-	35,792
-	(71,814)	(627,947)	-
-	-	-	(374,856)
<u>(129)</u>	<u>(352,123)</u>	<u>(2,589,061)</u>	<u>(240,113)</u>
(129)	(51,691)	730,147	(50,056)
44,900	(20,000)	(535,100)	-
(2,520,780)	(48,898)	(2,713,413)	-
755,899	-	755,899	-
6,000,000	-	6,000,000	-
-	-	(288,000)	-
<u>-</u>	<u>-</u>	<u>(234,599)</u>	<u>-</u>
4,235,119	(48,898)	3,519,887	-
-	(335,874)	1,231,289	255,531
(4,280,019)	382,235	(5,160,863)	(244,213)
-	29,043	184,106	36,825
<u>(4,280,019)</u>	<u>75,404</u>	<u>(3,745,468)</u>	<u>48,143</u>
(129)	(45,185)	(30,534)	(1,913)
<u>(64)</u>	<u>(18,992)</u>	<u>(228,739)</u>	<u>19,558</u>
<u>(193)</u>	<u>(64,177)</u>	<u>(259,273)</u>	<u>17,645</u>

City of Storm Lake
Statement of Cash Flows
Proprietary Funds - Continued
Year ended June 30, 2006

	Enterprise	
	Water	Wastewater
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 113,266	(382,221)
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	650,111	461,262
(Increase) decrease in operating assets:		
Customer accounts receivable and unbilled usage	(39,457)	(44,060)
Inventories	(267)	102
Prepaid expenses	(2,403)	1,501
Increase (decrease) in operating liabilities:		
Accounts payable	14,152	76
Salaries and benefits payable	734	476
Incurred and unpaid claims	-	-
Customer deposits	1,235	-
Compensated absences	4,249	3,211
Net cash provided (used) by operating activities	\$ 741,620	40,347
 Reconciliation of cash and cash equivalents at year to specific assets included on the Statement of Net Assets:		
Cash and cash equivalents	\$ -	-
Cash due bank	-	(194,903)
	-	(194,903)

See notes to financial statements

Funds			Internal Service Funds
<u>Lodge</u>	<u>Other Nonmajor Enterprise</u>	<u>Total</u>	<u>Total</u>
(129)	(30,037)	(299,121)	(61,028)
-	2,072	1,113,445	-
-	(24,174)	(107,691)	-
-	(1,375)	(1,540)	1,828
-	(138)	(1,040)	-
-	(2,211)	12,017	-
-	104	1,314	-
-	-	-	9,144
-	-	1,235	-
-	4,068	11,528	-
<u>(129)</u>	<u>(51,691)</u>	<u>730,147</u>	<u>(50,056)</u>
-	-	-	21,467
<u>(193)</u>	<u>(64,177)</u>	<u>(259,273)</u>	<u>(3,822)</u>
<u>(193)</u>	<u>(64,177)</u>	<u>(259,273)</u>	<u>17,645</u>

City of Storm Lake
Statement of Fiduciary Net Assets
Fiduciary Funds
Year ended June 30, 2006

	Pension Trust	Agency Lake Improvement Commission
	Police/Fire	
Assets:		
Cash and cash equivalents	\$ -	-
Investments	14,535	386,960
Accrued interest receivable	-	4,593
Due from other governments	-	43,873
Prepaid expenses	-	12,300
Total assets	\$ 14,535	447,726
Liabilities:		
Accounts payable	\$ -	-
Salaries and benefits payable	4,331	-
Contracts payable	-	-
Due to other governments	-	447,726
	4,331	447,726
Net assets:		
Reserved for pensions	\$ 10,204	-

See notes to financial statements

City of Storm Lake
 Statement of Changes in Fiduciary Net Assets
 Fiduciary Funds

Year ended June 30, 2006

	<u>Pension Trust</u> <u>Police/Fire</u>
Additions:	
Transfer from general fund	\$ 198,554
Deductions:	
Public safety	<u>191,614</u>
Change in net assets	6,940
Net assets, beginning of year	<u>3,264</u>
Net assets, end of year	\$ <u>10,204</u>

See notes to financial statements

City of Storm Lake

Notes to Financial Statements

June 30, 2006

NOTE (1) Summary of Significant Accounting Policies

City of Storm Lake is a political subdivision of the State of Iowa located in Buena Vista County. It was first incorporated in 1873 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The City of Storm Lake 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. It also provides water, sewer and landfill utilities.

The financial statements of the City of Storm Lake have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of Storm Lake 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. Using the criteria above, the City has determined that no component units are to be reported in these financial statements.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property 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 Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

City of Storm Lake

Notes to Financial Statements

June 30, 2006

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

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 not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues 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 restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary 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 revenues and other revenues 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 expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

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

The Special Levy Fund is used to account for property tax levied to finance the payment of employee benefits.

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for capital improvements, equipment and retirement of related debt.

City of Storm Lake

Notes to Financial Statements

June 30, 2006

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Wastewater Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Lodge Fund is used to account for the construction and operation of a hotel facility.

The City also reports the following additional proprietary funds:

Internal Service Funds are utilized to account for the financing of goods and services purchased by one department of the City, and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

City of Storm Lake

Notes to Financial Statements

June 30, 2006

NOTE (1) Summary of Significant Accounting Policies - Continued

C. Measurement Focus and Basis of Accounting - Continued

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted 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 revenues.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

City of Storm Lake

Notes to Financial Statements

June 30, 2006

NOTE (1) Summary of Significant Accounting Policies - Continued

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents – The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments.

Cash and cash equivalents at June 30, 2006 consist of cash in bank and temporary cash investments invested with original maturities of three months or less.

Property Tax Receivable, Including Tax Increment Financing – Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2006 and unpaid taxes. The succeeding year property tax receivable represents taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2005.

City of Storm Lake

Notes to Financial Statements

June 30, 2006

NOTE (1) Summary of Significant Accounting Policies - Continued

D. Assets, Liabilities and Fund Equity - Continued

Customer Accounts and Unbilled Usage – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets – Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets – Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets and in the Proprietary Funds Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land, buildings and improvements	\$ 5,000
Equipment and vehicles	5,000
Infrastructure	5,000

City of Storm Lake

Notes to Financial Statements

June 30, 2006

NOTE (1) Summary of Significant Accounting Policies - Continued

D. Assets, Liabilities and Fund Equity - Continued

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	20-40 years
Improvements other than buildings	20 years
Equipment and vehicles	5-20 years
Infrastructure	15-20 years

Other Assets – Loan fees are being amortized over the life of the loan, which is 20 years.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

Compensated Absences – City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

City of Storm Lake

Notes to Financial Statements

June 30, 2006

NOTE (1) Summary of Significant Accounting Policies - Continued

D. Assets, Liabilities and Fund Equity - Continued

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Budgets and Budgetary Accounting

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

NOTE (2) Cash and Pooled Investments

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

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

The City's deposits at June 30, 2006 are shown below:

	<u>Carrying Value</u>	<u>Market Value</u>
Cash on hand	\$ 400	\$ 400
Deposits on demand	(696,494)	(696,494)
Deposit with employee health benefit administration	21,466	21,466
Savings account	2,679,051	2,679,051
Time deposits	<u>10,037,022</u>	<u>10,037,022</u>
	<u>\$ 12,041,445</u>	<u>\$ 12,041,445</u>

City of Storm Lake

Notes to Financial Statements

June 30, 2006

NOTE (2) Cash and Pooled Investments - Continued

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$6,000,335 pursuant to Rule 2a-7 under the Investments Company Act of 1940.

Credit risk – The City’s investment in the Iowa Public Agency Investment Trust is unrated.

NOTE (3) Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Primary Government				
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,414,678	16,275	-	1,430,953
Construction in progress - infrastructure	399,688	2,876,152	399,688	2,876,152
Total capital assets not being depreciated	1,814,366	2,892,427	399,688	4,307,105
Capital assets being depreciated:				
Buildings	4,990,487	111,712	-	5,102,199
Improvements other than buildings	4,733,590	-	198,916	4,534,674
Equipment and vehicles	3,672,149	242,750	67,956	3,846,943
Infrastructure, road network	1,518,963	711,256	-	2,230,219
Total capital assets being depreciated	14,915,189	1,065,718	266,872	15,714,035
Less accumulated depreciation for:				
Buildings	1,904,230	149,058	-	2,053,288
Improvements other than buildings	2,531,402	123,051	149,752	2,504,701
Equipment and vehicles	1,697,366	237,842	60,016	1,875,192
Infrastructure, road network	39,898	93,622	-	133,520
Total accumulated depreciation	6,172,896	603,573	209,768	6,566,701
Total capital assets being depreciated, net	8,742,293	462,145	57,104	9,147,334
Governmental activities capital assets, net	\$ 10,556,659	3,354,572	456,792	13,454,439
Business type activities:				
Capital assets not being depreciated:				
Land	\$ 8,000	-	-	8,000
Construction in progress - infrastructure	357,371	3,532,974	100,585	3,789,760
Total capital assets not being depreciated	365,371	3,532,974	100,585	3,797,760
Capital assets being depreciated:				
Buildings	9,407,758	15,898	-	9,423,656
Equipment and vehicles	605,834	-	-	605,834
Infrastructure, water and sewer network	19,586,458	213,527	-	19,799,985
Total capital assets being depreciated	29,600,050	229,425	-	29,829,475
Less accumulated depreciation for:				
Buildings	6,714,467	280,051	-	6,994,518
Equipment and vehicles	1,152,847	26,366	-	1,179,213
Infrastructure, water and sewer network	5,899,025	803,278	-	6,702,303
Total accumulated depreciation	13,766,339	1,109,695	-	14,876,034
Total capital assets being depreciated, net	15,833,711	(880,270)	-	14,953,441
Business type activities capital assets, net	\$ 16,199,082	2,652,704	100,585	18,751,201

City of Storm Lake

Notes to Financial Statements

June 30, 2006

NOTE (3) Capital Assets - Continued

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:		
Public safety	\$	138,867
Public works		334,356
Culture and recreation		96,299
General government		<u>34,051</u>
	\$	<u>603,573</u>
Business type activities:		
Water	\$	646,361
Wastewater		461,262
Storm sewer		1,840
Landfill		<u>232</u>
	\$	<u>1,109,695</u>

NOTE (4) Intergovernmental Receivables

Intergovernmental receivables as of June 30, 2006, include the following:

From	For	Amount
State of Iowa	Local option sales tax	\$ 127,817
	Road use tax	65,723
	Vision Iowa grant	970,328
	Highway construction grant	22,029
	Iowa "Rise" grant	100,000
	Community development block grant	17,843
	Police grants	509
	Fuel tax refunds	<u>1,955</u>
		1,306,204
Storm Lake Community School District	School crossing guards reimbursement	3,229
City of Webster City	Byrne block grant	<u>3,542</u>
		\$ <u>1,312,975</u>

City of Storm Lake
Notes to Financial Statements
June 30, 2006

NOTE (5) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Emergency	\$ 56,103
Special Revenue: Expendable Gift Special Revenue	Special Revenue: Local Option Sales Tax	2,700
Debt Service	Special Revenue: Local Option Sales Tax Hotel/Motel Tax Tax Increment Financing	200,168 16,436 <u>73,903</u> 290,507
Capital Projects	General Special Revenue: Road Use Local Option Sales Tax Debt Service Enterprise: Water Sewer Storm Sewer Landfill	10,000 295,743 370,100 146,000 300,000 260,000 10,000 <u>10,000</u> 1,401,843
Enterprise: Lodge	Special Revenue: Local Option Sales Tax Debt Service Capital Projects	44,900 99,950 <u>771,763</u> 916,613
Fiduciary: Police/Fire Pension Trust	Special Revenue: Special Levy	<u>198,544</u>
		<u>\$ 2,866,310</u>

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

City of Storm Lake

Notes to Financial Statements

June 30, 2006

NOTE (6) Long Term Debt

The City's computed legal debt limit as of June 30, 2006 is approximately \$16,500,000, of which, \$11,503,431 is committed for outstanding general obligation debt. A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation notes	\$ 5,736,031	6,000,000	232,600	11,503,431	148,431
Local option sales tax bonds	195,000	-	195,000	-	-
Compensated absences	242,724	17,283	-	260,007	101,403
Total	\$ 6,173,755	6,017,283	427,600	11,763,438	249,834
Business type activities:					
Revenue notes	7,218,228	-	288,000	6,930,228	296,000
Compensated absences	92,356	9,861	-	102,217	39,865
Total	\$ 7,310,584	9,861	288,000	7,032,445	335,865

General obligation notes of \$635,000 were issued in 1999 for the purpose of providing funds to purchase a fire truck. The principal and interest on the notes are payable out of the taxes levied for the debt service fund. General obligation bonds of \$5,600,000 were issued during the year ended June 30, 2005 and \$6,000,000 general obligation urban renewal bonds were issued during the current year for the purpose of providing funds to construct a resort project called "The Awaysis". Principal and interest are payable out of taxes levied for the debt service fund, hotel/motel tax revenues collected from the operations of the lodge, and from the taxes paid into the urban renewal tax increment financing revenue fund.

The balance of general obligation notes outstanding at June 30, 2006 is \$11,503,431. The final installment for the general obligation notes issued for the fire truck is due in the amount of \$19,433 including interest at 5.44% during the year ending June 30, 2007. The general obligation notes issued for the Awaysis project are due in annual installments of \$355,450, including interest ranging from 3.75% - 4.25%, with final maturity due during the year ending June 30, 2025. The general obligation urban renewal bonds are due in annual installments of \$439,170, including interest ranging from 5.25% - 5.70%, with the final maturity due during the year ending June 30, 2025.

Details of the City's general obligation, special assessment and local option sales tax note and bonds payable at June 30, 2006 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding 06/30/06
General obligation notes:						
Fire truck	08/01/99	5.44%	06/01/07	\$ 19,433	\$ 635,000	\$ 18,431
Awaysis project	06/01/05	3.75-4.25%	06/02/25	355,450	5,600,000	5,485,000
Urban Renewal	01/01/06	5.25-5.70%	06/01/25	493,170	6,000,000	6,000,000
						\$ 11,503,431

City of Storm Lake

Notes to Financial Statements

June 30, 2006

NOTE (6) Long Term Debt - Continued

A summary of the governmental bond/note principal and interest requirements to maturity by year is as follows:

	Year Ending June 30,	Principal	Interest	Total
General obligation notes	2007	\$ 148,431	559,623	708,054
	2008	130,000	553,096	683,096
	2009	165,000	547,570	712,570
	2010	185,000	540,558	725,558
	2011	375,000	532,695	907,695
	2012-2016	2,245,000	2,109,005	4,354,005
	2017-2021	3,190,000	1,783,392	4,973,392
	2022-2025	5,065,000	814,581	5,879,581
		<u>\$ 11,503,431</u>	<u>7,440,520</u>	<u>18,943,951</u>

Revenue Capital Loan Note

The water revenue capital loan note series 2003 bears interest at 3% and matures in varying annual amounts ranging from \$279,000 to \$490,000, with the final maturity due in the year ending June 30, 2024.

The resolution providing for the issuance of the revenue capital loan note includes 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 a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- (c) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.
- (d) Maintain insurance on the system.

During the year ended June 30, 2006, the City was in compliance with the revenue capital loan note provisions.

City of Storm Lake
Notes to Financial Statements
June 30, 2006

NOTE (6) Long Term Debt - Continued

Details of revenue capital loan note payable at June 30, 2006 are as follows:

Business type activities Revenue notes	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding 06/30/06
Water revenue notes	08/01/03	3.00%	06/01/24	\$ 503,990	\$ 7,500,000	\$ 6,930,228

A summary of the annual revenue capital note principal and interest requirements to maturity is as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 296,000	207,990	503,990
2008	305,000	199,110	504,110
2009	314,000	189,960	503,960
2010	324,000	180,540	504,540
2011	333,000	170,820	503,820
2012-2016	1,822,000	698,040	2,520,040
2017-2021	2,113,000	407,820	2,520,820
2022-2024	1,423,228	86,430	1,509,658
	\$ <u>6,930,228</u>	<u>2,140,710</u>	<u>9,070,938</u>

NOTE (7) Interest Costs

Interest costs are reflected in the fund financial statements as follows:

Interest costs expensed	\$ 376,845
Interest costs capitalized in enterprise fund assets	<u>99,950</u>
	<u>\$ 476,795</u>

City of Storm Lake

Notes to Financial Statements

June 30, 2006

NOTE (8) Jointly-Governed Organizations

The City participates in a jointly-governed organization agreement with the Buena Vista County Solid Waste Commission, a political subdivision created under Chapter 28E of the Code of Iowa. The purpose of the Commission includes providing economic disposal of solid waste produced or generated within the member county and cities.

The City's ongoing financial interest in the jointly-governed organization consists of the operation of the landfill and other solid waste collection and disposal operations. The City collects landfill fees as a part of its regular utility billings. The Commission then bills the City quarterly for its operations. This fee is computed for each municipality on a per capita basis. For the fiscal year ended June 30, 2006 this fee totaled \$312,356.

Copies of the Commission's financial statements are available from the City Clerk at the City of Alta, or from the State Auditor's Office.

The City participates in a jointly-governed organization agreement with the Lake Improvement Commission, a political sub-division created under Chapter 28E of the Code of Iowa. The financial information for the commission is reflected as an agency fund in these financial statements. The purpose of the Commission is to finance and effect a continued dredging of the Lake Storm Lake.

Copies of the Commission's financial statements are available from the City Clerk at City of Storm Lake, or from the State Auditor's Office.

The City also participates in several jointly-governed organizations for which the City is not financially accountable, or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following Boards or Commissions: Buena Vista County Assessor's Conference Board, Buena Vista County Emergency Management Commission, Buena Vista County Communications Commission, Joint E911 Service Board, and Region V Drug Task Force.

City of Storm Lake
Notes to Financial Statements
June 30, 2006

NOTE (9) Construction Contracts and Commitments

The City has entered into the following contracts which were not complete as of June 30, 2006:

Project	Estimated Total Contract Price	Paid to June 30, 2006	Remaining Commitment	Accounts Payable	Retainages Payable
Water Plant Renovation Construction	\$ 6,167,779	\$ 6,147,779	\$ 20,000	-	\$ 20,000
Alwaysis Project					
Engineer	1,559,263	1,354,564	204,699	-	-
Engineer	381,038	342,934	38,104	-	-
Construction	618,646	488,863	129,783	79,007	50,776
Construction	6,336,928	1,117,388	5,219,540	-	58,810
Construction	302,210	238,880	63,330	-	12,573
Construction	568,087	414,604	153,483	-	21,821
Construction	15,024,278	677,538	14,346,740	-	35,660
	<u>\$ 30,958,229</u>	<u>\$ 10,782,550</u>	<u>\$ 20,175,679</u>	<u>79,007</u>	<u>\$ 199,640</u>

NOTE (10) Commitments

The City has entered into an agreement for the operation and maintenance of the City's waste water treatment facilities through June 2013, with the fee to be negotiated yearly. The fee for the fiscal year ending June 30, 2007 is \$55,414 per month.

The City has entered into an agreement for the operations and maintenance of the City's water and water treatment facilities through June 2013, with the fee to be negotiated yearly. The fee for the fiscal year ending June 30, 2007 is \$64,029 per month.

The City has entered into an agreement for the management of the airport for the fiscal year ending June 30, 2007 for \$2,703 per month.

The City has entered into an agreement to provide transportation services to the City's residents for the fiscal year ending June 30, 2007 for an annual fee of \$10,000.

City of Storm Lake

Notes to Financial Statements

June 30, 2006

NOTE (11) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductible 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.

Effective August 1, 1983, the City adopted a plan of self-insurance for employee's health benefits. Deposits are made to the Employee Health Benefit Fund to pay employee claims. An excess coverage insurance policy covers individual claims over \$20,000, or total group claims exceeding 125% of expected claims.

An actuarial study of the adequacy of reserves, rates and financial condition of the Employee Health Benefit Fund was performed for the plan year January 1, 2005 to December 31, 2005. The study included census of covered members as of December 31, 2005, a summary of aggregate and specific excess loss reinsurance coverage, monthly claim expense information, a summary of revenues and expenses, and review of the plan document summary description.

Following is a financial analysis of the plan for the fiscal year ended June 30, 2006. Included in this analysis is an estimate of the amount needed at the end of the plan year for incurred but not paid claims.

	<u>Current Year</u>
Funds on Hand, July 1, 2005	\$ 462,531
Contributions Received	260,000
Interest Earned	20,283
Other Sources of Revenue	34,938
	<u>777,752</u>
Claims Paid	229,588
Aggregate Stop-Loss Premiums and Other Charges	122,181
	<u>351,769</u>
Funds on Hand, June 30, 2006	425,983
Reserved for Incurred but Unpaid Claims	15,981
Unreserved Funds	<u>\$ 414,749</u>

For the prior year, the estimated incurred but unreported claims was \$6,837. The actual amount of claims paid during the current plan year, but incurred in the prior plan year was \$15,284.

City of Storm Lake

Notes to Financial Statements

June 30, 2006

NOTE (12) Deferred Compensation

The City offers its employees deferred compensation plans as allowed by Internal Revenue Code Section 457. The plan allows City employees to defer a portion of the current salary until future years. The employee becomes eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

The City has adopted GASB Statement 32 and does not report the assets of the plans on its balance sheet.

NOTE (13) Pension and Retirement

Police and Fire Retirement System

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104th Street, Urbandale, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2006, 2005, and 2004 were \$190,790, \$161,851, and \$129,867, respectively, which met the required minimum contribution for each year.

Iowa Public Employees Retirement System

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 statutes 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, PO Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$87,548, \$76,903, and \$69,386, respectively, equal to the required contributions for each year.

City of Storm Lake

Notes to Financial Statements

June 30, 2006

NOTE (13) Pension and Retirement - Continued

ICMA Retirement Plan

The Chief of Police, City Administrator and Awaysis Project Manager are covered under the nationwide retirement plan offered by the International City Manager's Association (ICMA). Contributions required by the employer are 12% of the annual salary for the Chief of Police, and \$8,000 less the City's IPERS contribution per year for the City Administrator, and \$2,000 per year for the Awaysis Project Manager.

The City's responsibility is limited to payment of contributions required by the established rates. The employer's contribution paid by the City for the year ended June 30, 2006 totaled \$15,007.

NOTE (14) Conduit Debt Obligations

To provide for the construction of additions to the library, dormitories and a recreation facility at Buena Vista University, the City has issued a series of Higher Education Facilities Revenue Bonds. In addition, the City issued Elderly Housing Revenue Bonds for the construction of dietary and maintenance facilities and an addition of a 38 unit independent living facility at Methodist Manor Retirement Community. These bonds are special limited obligations of the City, payable solely from, and secured by a pledge of revenues to be received by the university and the care facility. The bonds do not constitute a debt or pledge of the faith and credit of the City, and accordingly, have not been reported in the accompanying financial statements.

A summary of conduit debt obligations is as follows:

Obligation	Amount Originally Issued	Date of Issue	Balance Outstanding June 30, 2006
Higher Education Facilities Revenue Bonds:	\$ 7,630,000	05/24/00	\$ 5,610,000
Elderly Housing Revenue Bonds:	4,615,000	07/01/98	4,065,000
	5,325,000	10/01/03	5,100,000
			9,165,000
			\$ 14,775,000

City of Storm Lake
Notes to Financial Statements
June 30, 2006

NOTE (15) Noncash Investing and Financing Activities

Noncash investing or financing transactions did not occur during the year ended June 30, 2006.

NOTE (16) Subsequent Event

The following construction contracts were awarded subsequent to June 30, 2006:

Golf course renovation	\$	599,600
Water tower demolition		14,300
E Lakeshore Drive		
Construction		1,690,956
Additional engineering		<u>96,470</u>
	\$	<u>2,401,321</u>

The following debt was authorized subsequent to June 30, 2006:

General obligation urban renewal bonds of \$3,000,000 to be abated with tax increment financing revenue and hotel/motel tax revenue.

General obligation urban renewal bonds of \$5,400,000 to be abated with local option sales tax revenue.

Storm water revenue bonds of \$1,200,000 were authorized of which \$729,000 were issued.

The following revenue is expected from grant proceeds unspent as of June 30, 2006:

Grant	Award Amount	Revenue Recognized	Remaining Balance
State grants			
Vision Iowa – Awaysis project	\$ 9,000,000	\$ 1,726,227	\$ 7,273,773
Dredging	500,000	-	500,000
Federal grants			
Environmental interpretive center	248,000	-	248,000
Boat dock and breakwater system	148,800	-	148,800
Well project	240,600	-	<u>240,600</u>
			<u>\$ 8,411,173</u>

Required Supplementary Information

City of Storm Lake

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) -
Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,619,240	-	-
Tax increment financing	84,449	-	-
Other city tax	1,065,476	-	-
Licenses and permits	110,094	-	-
Use of money and property	663,191	220,841	36,735
Intergovernmental	1,755,418	755,899	-
Charges for service	430,791	4,555,367	564,913
Special assessments	-	-	-
Miscellaneous	803,148	17,500	-
Total receipts	<u>7,531,807</u>	<u>5,549,607</u>	<u>601,648</u>
Disbursements:			
Public safety	1,734,586	227,953	227,953
Public works	919,902	139,089	139,089
Health and social services	10,700	-	-
Culture and recreation	831,899	72,281	72,281
Community and economic development	337,172	-	-
General government	281,992	14,994	14,994
Debt service	670,505	-	-
Capital projects	4,447,475	-	-
Business type activities	-	6,674,471	160,652
Total disbursements	<u>9,234,231</u>	<u>7,128,788</u>	<u>614,969</u>
Excess (deficiency) of receipts over (under) disbursements	(1,702,424)	(1,579,181)	(13,321)
Other financing sources, net	<u>336,546</u>	<u>5,464,900</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,365,878)	3,885,719	(13,321)
Balances, beginning of year	<u>8,823,359</u>	<u>6,297,085</u>	<u>919,846</u>
Balances, end of year	<u>\$ 7,457,481</u>	<u>10,182,804</u>	<u>906,525</u>

See accompanying independent auditors' report

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
2,619,240	2,649,970	2,649,970	(30,730)
84,449	-	-	84,449
1,065,476	1,169,161	1,169,161	(103,685)
110,094	122,600	122,600	(12,506)
847,297	181,085	246,085	601,212
2,511,317	3,013,253	3,013,253	(501,936)
4,421,245	4,259,863	4,334,863	86,382
-	518	518	(518)
820,648	2,372,625	2,372,625	(1,551,977)
<u>12,479,766</u>	<u>13,769,075</u>	<u>13,909,075</u>	<u>(1,429,309)</u>
1,734,586	1,925,303	2,000,303	265,717
919,902	943,930	983,930	64,028
10,700	15,700	15,700	5,000
831,899	903,904	928,904	97,005
337,172	420,386	420,386	83,214
281,992	327,836	327,836	45,844
670,505	840,119	840,119	169,614
4,447,475	19,472,816	19,472,816	15,025,341
6,513,819	15,872,524	15,872,524	9,358,705
<u>15,748,050</u>	<u>40,722,518</u>	<u>40,862,518</u>	<u>25,114,468</u>
(3,268,284)	(26,953,443)	(26,953,443)	23,685,159
<u>5,801,446</u>	<u>21,854,520</u>	<u>21,854,520</u>	<u>(16,053,074)</u>
2,533,162	(5,098,923)	(5,098,923)	7,632,085
<u>14,200,598</u>	<u>12,294,958</u>	<u>12,294,958</u>	<u>1,905,640</u>
<u>16,733,760</u>	<u>7,196,035</u>	<u>7,196,035</u>	<u>9,537,725</u>

City of Storm Lake
 Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2006

	<u>Governmental Funds</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
Revenues	\$ 7,531,807	(53,318)	7,478,489
Expenditures/expenses	9,234,231	(729,219)	8,505,012
Net	(1,702,424)	675,901	(1,026,523)
Other financing sources, net	336,546	(871,713)	(535,167)
Beginning fund balances/net assets, as restated	8,823,359	616,642	9,440,001
Ending fund balances/net assets	\$ <u>7,457,481</u>	<u>420,830</u>	<u>7,878,311</u>

See accompanying independent auditors' report

Proprietary Funds		
Enterprise		
Cash Basis	Accrual Adjustments	Accrual Basis
\$ 5,549,607	407,902	5,957,509
7,128,788	(2,542,167)	4,586,621
(1,579,181)	2,950,069	1,370,888
5,464,900	871,713	6,336,613
6,297,085	8,434,671	14,731,756
<u>\$ 10,182,804</u>	<u>12,256,453</u>	<u>22,439,257</u>

City of Storm Lake

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board (GASB) 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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, Permanent Fund and Enterprise 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, a budget amendment increased budgeted disbursements by \$140,000. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements did not exceed the budgeted amounts.

Other Supplementary Information

City of Storm Lake
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2006

	Special			
	Tort Insurance	Emergency Levy	Hotel Motel Tax	TIF
Assets:				
Investments	\$ 437,760	-	-	166,163
Receivables:				
Property tax:				
Delinquent	873	988	-	-
Succeeding year	75,000	56,272	-	-
Tax increment financing:				
Delinquent	-	-	-	401
Succeeding year	-	-	-	79,646
Accrued interest	-	-	-	-
Prepaid items	38,131	-	-	-
	<u>\$ 551,764</u>	<u>57,260</u>	<u>-</u>	<u>246,210</u>
Liabilities and Fund Balances				
Liabilities:				
Salaries and benefits payable	\$ -	-	-	-
Deferred revenue:				
Succeeding year property tax	75,000	56,272	-	-
Succeeding year tax increment financing	-	-	-	79,646
Other	303	344	-	-
Total liabilities	<u>75,303</u>	<u>56,616</u>	<u>-</u>	<u>79,646</u>
Fund Balances:				
Unreserved:				
Special revenue funds	476,461	644	-	166,564
Permanent fund	-	-	-	-
	<u>476,461</u>	<u>644</u>	<u>-</u>	<u>166,564</u>
Total liabilities and fund balances	<u>\$ 551,764</u>	<u>57,260</u>	<u>-</u>	<u>246,210</u>

See accompanying independent auditors' report

Schedule 1

Revenue					Permanent	
Crime Prevention	Library Special Revenue	Dredging	Expendable Gift Special Revenue	Law Enforcement	Erma Myers Trust	Total
23,837	92,366	6,543	11,652	8,845	2,654	749,820
-	-	-	-	-	-	1,861
-	-	-	-	-	-	131,272
-	-	-	-	-	-	401
-	-	-	-	-	-	79,646
283	1,096	78	138	105	-	1,700
-	-	10,072	-	-	-	48,203
<u>24,120</u>	<u>93,462</u>	<u>16,693</u>	<u>11,790</u>	<u>8,950</u>	<u>2,654</u>	<u>1,012,903</u>
-	-	6,052	-	-	-	6,052
-	-	-	-	-	-	131,272
-	-	-	-	-	-	79,646
-	-	-	-	-	-	647
-	-	6,052	-	-	-	217,617
24,120	93,462	10,641	11,790	8,950	-	792,632
-	-	-	-	-	2,654	2,654
<u>24,120</u>	<u>93,462</u>	<u>10,641</u>	<u>11,790</u>	<u>8,950</u>	<u>2,654</u>	<u>795,286</u>
<u>24,120</u>	<u>93,462</u>	<u>16,693</u>	<u>11,790</u>	<u>8,950</u>	<u>2,654</u>	<u>1,012,903</u>

City of Storm Lake

Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2006

	Special			
	Tort Insurance	Emergency Levy	Hotel Motel Tax	TIF
Revenues:				
Property tax	\$ 47,039	53,170	-	-
Tax increment financing collections	-	-	-	84,850
Other city tax	2,658	3,004	147,388	-
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	-
Miscellaneous	3,915	-	-	-
Total revenues	<u>53,612</u>	<u>56,174</u>	<u>147,388</u>	<u>84,850</u>
Expenditures:				
Operating:				
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Community and economic development	-	-	130,952	-
General government	60,461	-	-	-
Total expenditures	<u>60,461</u>	<u>-</u>	<u>130,952</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	(6,849)	56,174	16,436	84,850
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	-	(56,103)	(16,436)	(73,903)
	<u>-</u>	<u>(56,103)</u>	<u>(16,436)</u>	<u>(73,903)</u>
Net change in fund balances	(6,849)	71	-	10,947
Fund balance, beginning of year	<u>483,310</u>	<u>573</u>	<u>-</u>	<u>155,617</u>
Fund balance, end of year	<u>\$ 476,461</u>	<u>644</u>	<u>-</u>	<u>166,564</u>

See accompanying independent auditors' report

Schedule 2

Revenue					Permanent	
Crime Prevention	Library Special Revenue	Dredging	Expendable Gift Special Revenue	Law Enforcement	Erma Myers Trust	Total
-	-	-	-	-	-	100,209
-	-	-	-	-	-	84,850
-	-	-	-	-	-	153,050
1,052	3,595	275	85	278	24	5,309
-	8,334	85,048	-	1,080	-	94,462
<u>7,608</u>	<u>9,812</u>	<u>60,992</u>	<u>4,700</u>	<u>8,567</u>	<u>-</u>	<u>95,594</u>
8,660	21,741	146,315	4,785	9,925	24	533,474
8,439	-	-	-	5,507	-	13,946
-	-	-	-	-	-	-
-	16,236	-	-	-	-	16,236
-	-	145,613	-	-	-	276,565
-	-	-	-	-	-	60,461
<u>8,439</u>	<u>16,236</u>	<u>145,613</u>	<u>-</u>	<u>5,507</u>	<u>-</u>	<u>367,208</u>
221	5,505	702	4,785	4,418	24	166,266
-	-	-	2,700	-	-	2,700
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(146,442)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>2,700</u>	<u>-</u>	<u>-</u>	<u>(143,742)</u>
221	5,505	702	7,485	4,418	24	22,524
<u>23,899</u>	<u>87,957</u>	<u>9,939</u>	<u>4,305</u>	<u>4,532</u>	<u>2,630</u>	<u>772,762</u>
<u>24,120</u>	<u>93,462</u>	<u>10,641</u>	<u>11,790</u>	<u>8,950</u>	<u>2,654</u>	<u>795,286</u>

City of Storm Lake
Combining Statement of Net Assets
Nonmajor Enterprise Funds

Year ended June 30, 2006

	Enterprise Funds		
	Landfill	Storm Sewer	Total
Assets:			
Investments	\$ 277,080	59	277,139
Receivables:			
Customer accounts and unbilled usage	45,588	24,571	70,159
Accrued interest	3,289	4,789	8,078
Inventories	-	1,375	1,375
Prepaid expenses	52	1,205	1,257
Restricted assets:			
Investments	-	403,432	403,432
Capital assets	693	83,850	84,543
Total assets	\$ 326,702	519,281	845,983
Liabilities and Net Assets:			
Liabilities:			
Cash due bank	\$ -	64,177	64,177
Accounts payable	-	464	464
Salaries and benefits payable	803	-	803
Compensated absences	1,531	1,387	2,918
Long-term liabilities:			
Compensated absences	2,394	2,169	4,563
Total liabilities	4,728	68,197	72,925
Net Assets:			
Invested in capital assets, net of related debt	693	83,850	84,543
Restricted for:			
Storm sewer improvement	-	344,043	344,043
Unrestricted	321,281	23,191	344,472
Total net assets	321,974	451,084	773,058
Total liabilities and net assets	\$ 326,702	519,281	845,983

See accompanying independent auditors' report

City of Storm Lake

Statement of Revenues, Expenses and
Changes in Fund Net Assets
Nonmajor Enterprise Funds

Year ended June 30, 2006

	Enterprise Funds		
	Landfill	Storm Water	Total
Operating revenues:			
Charges for services	\$ 371,533	24,577	396,110
Miscellaneous	218	92	310
	<u>371,751</u>	<u>24,669</u>	<u>396,420</u>
Operating expenses:			
Business type activities:			
Cost of sales and services	344,434	79,951	424,385
Depreciation and amortization	232	1,840	2,072
Total operating expenses	<u>344,666</u>	<u>81,791</u>	<u>426,457</u>
Operating income (loss)	27,085	(57,122)	(30,037)
Nonoperating income:			
Interest income	<u>10,295</u>	<u>17,821</u>	<u>28,116</u>
Income (loss) before operating transfers	37,380	(39,301)	(1,921)
Transfers from (to) other funds	<u>(10,000)</u>	<u>(10,000)</u>	<u>(20,000)</u>
Change in net assets	27,280	(49,301)	(21,921)
Net assets, beginning of year	<u>294,594</u>	<u>500,385</u>	<u>794,979</u>
Net assets, end of year	<u>\$ 321,974</u>	<u>451,084</u>	<u>773,058</u>

See accompanying independent auditors' report

City of Storm Lake

Statement of Changes in Assets and Liabilities – Agency Fund

Year Ended June 30, 2006

	<u>Lake Improvement Commission</u>			<u>Balance End of Year</u>
	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	
Assets:				
Cash and pooled investments	\$ 2,026	1,015,436	630,502	386,960
Interest receivable	25	4,593	25	4,593
Due from other governments	39,157	43,873	39,157	43,873
Prepaid expenses	13,080	12,300	13,080	12,300
Total assets	\$ 54,288	1,076,202	682,764	447,726
Liabilities:				
Accounts payable	\$ 229	-	229	-
Contracts payable	-	-	-	-
Due to other governments	54,059	1,076,202	682,535	447,726
Total liabilities	\$ 54,288	1,076,202	682,764	447,726

See accompanying independent auditors' report

City of Storm Lake

Schedule of Revenue By Source and Expenditures By Function –

All Governmental Funds

Year ended June 30, 2006

	Modified Accrual Basis			
	2006	2005	2004	2003
Receipts				
Property tax	\$ 2,625,565	2,369,578	2,201,582	2,143,224
Tax increment financing revenue	84,850	36,460	33,264	31,544
Other city tax	1,132,590	1,076,883	1,113,416	961,224
License and permits	109,485	100,288	142,724	97,694
Use of money and property	693,381	298,777	445,652	184,277
Intergovernmental	1,535,489	2,059,008	1,476,894	1,291,763
Charges for service	430,791	472,177	464,140	372,442
Special assessments	-	1,343	50,142	21,963
Miscellaneous	866,338	563,315	130,143	328,504
Total	\$ 7,478,489	6,977,829	6,057,957	5,432,635
Disbursements				
Operating:				
Public safety	\$ 1,747,843	1,741,482	1,640,085	1,720,395
Public works	921,209	947,440	819,776	812,980
Health and social services	10,700	9,034	15,700	15,700
Culture and recreation	837,193	829,871	837,515	826,506
Community and economic development	336,781	365,144	408,725	330,421
General government	273,172	278,934	268,705	242,472
Debt service	570,555	361,282	456,073	355,951
Capital projects	3,807,559	2,150,456	1,676,848	1,662,726
Total	\$ 8,505,012	6,683,643	6,123,427	5,967,151

See accompanying independent auditors' report

City of Storm Lake
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2006

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency Pass- Through Number</u>	<u>Program Expenditures</u>
Direct:			
U.S. Environmental Protection Agency: Clean Water Grant	66.606		496,000
Indirect:			
U.S. Department of Justice: Flow Through City of Webster City: Byrne Block Grant	16.579	FY 06	3,680
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-E-7422	53,762
Safety Incentive Grants for Use of Seatbelt	20.604	FY 05	1,046
Safety Incentive Grants for Use of Seatbelt	20.604	FY 06	1,686
Intoxicated Driver Prevention	20.605	FY 05	4,390
			<u>60,884</u>
U.S. Department of Housing and Urban Development			
Community Development Block Grant/ State's Program	14.228	04-HS6-019	195,909
			<u>\$ 756,473</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Storm Lake. The financial statements of the City of Storm Lake are presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditors' report

City of Storm Lake

**Independent Auditors' 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***

August 29, 2006

Independent Auditors' 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 financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Storm Lake, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 29, 2006. 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 Storm Lake's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Storm Lake's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Continued...

Compliance

As part of obtaining reasonable assurance about whether the City of Storm Lake'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 that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of non-compliance that is described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Storm Lake and other parties to whom the City of Storm Lake 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 the City of Storm Lake 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.

**Independent Auditors' Report on Compliance with Requirements Applicable
to Its Major Program and Internal Control over Compliance in
Accordance with OMB Circular A-133**

August 29, 2006

Independent Auditors' Report on Compliance with Requirements Applicable to Its Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

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

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

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

Continued...

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 non-compliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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 Storm Lake and other parties to whom the City of Storm Lake 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.

City of Storm Lake
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) A reportable condition, not considered to be a material weakness, in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.606 – Clean Water Grant.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Storm Lake did not qualify as a low-risk auditee.

City of Storm Lake
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06 Library Receipts

Comment – We noted certain support documentation for petty cash expenditures paid with library fines was missing.

Recommendation – The City should review controls over library fines and petty cash receipts to give a proper accounting of all transactions.

Response – We will review our procedures and make recommendations to the Library to implement.

Conclusion – Response accepted.

City of Storm Lake
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over its major programs were noted.

City of Storm Lake

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-06 Certified Budget

Disbursements during the year ended June 30, 2006 did not exceed the amounts in the amended budgeted.

IV-B-06 Entertainment Expense

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-06 Business Transactions

No business transactions were noted between the City and City officials or employees.

IV-E-06 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

IV-F-06 Council Minutes

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

IV-G-06 Deposits and Investments

Comment - We noted no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy. However, we noted one depository was not included on the resolution naming official depositories.

Recommendation - The resolution should be amended to include all depositories.

Response - We have amended our depository resolution.

Conclusion - Response accepted.

City of Storm Lake
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part IV: Other Findings Related to Required Statutory Reporting:

IV-H-06 Revenue Note

The City complied with the provisions of the revenue capital loan note resolution.

IV-I-06 Excess Balances

Comment - The cash and investment balances in the Special Revenue Funds – Tort Insurance, and Urban Renewal Tax Increment Accounts at June 30, 2006 were in excess of the disbursements made from the respective funds during the year.

Recommendation – Although the City indicated that the balances would be used for future projects or costs, the City should consider the necessity of maintaining these substantial balances, and where feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response – The City has discontinued the levy of taxes for tort insurance. The balance in the Special Revenue Urban Renewal Tax Increment Account is needed for project and debt service costs.

Conclusion – Response accepted.

NEWS RELEASE

Schroer & Associates, P.C. today released an audit report on the City of Storm Lake, Iowa.

The City's revenues totaled \$13,400,079 for the year ended June 30, 2006, a 22.3 percent increase from the prior year. Revenues included \$2,909,909 in property tax, \$84,850 for tax increment financing revenues, \$4,617,816 from charges for service, \$1,379,470 from operating grants, contributions and restricted interest, \$3,295,704 from capital grants, contributions and restricted interest, \$836,898 from local option sales tax, \$270,719 from unrestricted investment earnings and \$4,713 from other general revenues.

Expenses for City operations totaled \$10,135,228, a 10 percent increase from the previous year. Expenses included \$2,078,322 for public safety, \$1,167,584 for culture and recreation, and \$1,054,507 for public works. Expenses for business type activities totaled \$4,593,202.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

December 4, 2006

David Vaudt
Office of State Auditor
State Capitol Building
Des Moines, IA 50319

Dear Sir:

We have enclosed for your records the following information regarding the audit of the City of Storm Lake and the Lake Improvement Commission for the year ended June 30, 2006.

- 2 copies of the audit report
- 1 copy of the news release
- 1 copy of the number of hours worked
- 1 copy of the invoice

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

December 4, 2006

Paul Noyes
City of Storm Lake
P.O. Box 1086
620 Erie Street
Storm Lake, IA 50588

Dear Paul:

We have filed the required copies of your audit report with the Office of Auditor of State. A filing fee is required to be paid based on your final amended budget, according to the following schedule:

<u>Budgeted Expenditures (In millions of dollars)</u>	<u>Fee Amount</u>
Under 1	\$ 100.00
At least 1, but less than 3	\$ 175.00
At least 3, but less than 5	\$ 250.00
At least 5, but less than 10	\$ 425.00
At least 10, but less than 25	\$ 625.00
25 and over	\$ 850.00

You are required to send the appropriate filing fee. The check should be made payable to "Auditor of State" and mailed to Office of Auditor of State, Capitol Building, Des Moines, IA 50319-0004.

If you have any questions, please do not hesitate to call me at 712-322-8734.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh

December 4, 2006

Paul Noyes
City of Storm Lake
P.O. Box 1086
620 Erie Street
Storm Lake, IA 50588

Dear Paul:

Enclosed is the Data Collection Form. Please sign where "marked" and return in the attached envelope back to our office.

Thank you.

Diane McGrain
Shareholder

DM/sh

City of Storm Lake & Lake Improvement Commission

Hours Worked: 182.25