

**CITY OF LAKE MILLS**

Lake Mills, Iowa

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

June 30, 2006

With Independent Auditor's Reports

**CITY OF LAKE MILLS**  
Contents

	<u>Pages</u>
City Officials	1
Independent Auditor's Report	2 - 3
Management's Discussion and Analysis	4 - 10
Statement of Activities and Net Assets – Cash Basis	11 - 12
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Governmental Funds	13 - 14
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Proprietary Funds	15
Notes to the Financial Statements	16 - 21
Budgetary Comparison Schedule of Receipts, Disbursements And Changes in Cash Balances – Budget and Actual (Cash Basis) – All Governmental and Proprietary Funds	22 - 23
Notes to Required Supplementary Information	24
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	25 - 26
Schedule of Long-Term Debt and Interest	27 - 28
Bond Maturities	29 - 30
Schedule of Receipts by Source and Disbursements By Function	31
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	32 - 33
Schedule of Findings	34 - 37

**CITY OF LAKE MILLS**  
 City Officials  
 June 30, 2006

<u>Name</u>	<u>Prior to January 1, 2006</u> <u>Title</u>	<u>Term Expires</u>
David Anderson	Mayor	January 2006
Don Wheatley	Mayor Pro-Tem	January 2006
Steve Gilbertson	Council Member	January 2006
John Kroger	Council Member	January 2008
Steve Kvale	Council Member	January 2008
Robert Storby	Council Member	January 2008
Sheryl Bell	Clerk-Treasurer	Indefinite
Richard Schwarm	City Attorney	Indefinite

Subsequent to December 31, 2005

David Anderson	Mayor	January 2008
Steve Kvale	Mayor Pro-Tem	January 2008
LeAnn Hagen	Council Member	January 2010
Candy Hanna	Council Member	January 2010
John Kroger	Council Member	January 2008
Robert Storby	Council Member	January 2008
Sheryl Bell	Clerk-Treasurer	Indefinite
Richard Schwarm	City Attorney	Indefinite

## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and  
Members of the City Council  
City of Lake Mills, Iowa

I 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 Lake Mills, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents of this report. These financial statements are the responsibility of the City of Lake Mills' management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinions.

As described more fully in Note 1, the financial statements referred to above have been prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lake Mills, Iowa, as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated August 16, 2006 on my consideration of the City of Lake Mills' internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 22 through 23 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Lake Mills' basic financial statements. I 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 on pages 25 through 31 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 my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

S/Stanley E. Siebke

Urbandale, Iowa  
August 16, 2006

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

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This section of the City of Lake Mills' Annual Financial Report presents management's discussion and analysis of the City's fiscal performance during the fiscal year that ended on June 30, 2006. It should be read in conjunction with the City's financial statements, which immediately follow this section.

### **2006 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental activities increased approximately 21%, or \$438,382, from Fiscal Year 2005 to Fiscal Year 2006. The Owner Occupied Housing Grant, IDOT Funding for the Streetscape and Recreational Trail Projects and increased interest rates were the major reasons for the increase in FY 2006.
- Disbursements of the City's governmental activities increased approximately 86%, or \$2,174,504, in Fiscal 2006 from Fiscal 2005. The increase was mainly due to Capital Projects and refunding of the G.O. Sewer Bonds.
- The City's total cash basis net assets increased 1%, or \$60,582, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased \$449,374 and the assets of the business type activities increased by \$509,956.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

## **Basis of Accounting**

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

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, sewer and electric system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

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

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

1) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and electric funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$2,230,904 to \$1,781,530. The analysis that follows focuses on the changes in cash balances for governmental activities.

### City of Lake Mills' Changes in Net Assets Governmental Activities

	<u>2006</u>	<u>2005</u>
Receipts & Transfers:		
Program Receipts:		
Charges for Service	\$ 262,915	\$ 267,305
Operating Grants and Contributions	423,704	249,922
Capital Grants and Contributions	366,688	256,984
General Receipts:		
Property tax levied for:		
General purposes	385,213	371,722
Tax increment financing	663,129	553,230
Debt service	172,946	173,015
Local option sales tax	138,344	132,135
Unrestricted interest on investments	70,243	47,533
Sale of assets	5,000	450
Proceeds of Long Term Debt	1,698,829	745,133
Miscellaneous	35,827	33,332
Transfers	17,554	589,952
Total Receipts and Transfers	<u>4,240,392</u>	<u>3,420,713</u>
Disbursements		
Public Safety	424,389	448,647
Public Works	339,875	339,900
Culture and Recreation	318,738	271,641
Community and Economic Development	449,145	267,539
General Government	84,434	81,583
Debt Service	1,357,768	428,635
Capital Projects	1,715,417	677,317
Total Disbursements	<u>4,689,766</u>	<u>2,515,262</u>
Increase (Decrease) in Cash Basis Net Assets	(449,374)	905,451
Cash Basis Net Assets beginning of year	<u>2,230,904</u>	<u>1,325,453</u>
Cash Basis Net Assets end of year	<u>\$ 1,781,530</u>	<u>2,230,904</u>

The City's total receipts for governmental activities increased approximately 49.2%, or \$1,392,078. The increase in receipts was due to: Proceeds of Long Term Debt of \$1,698,829 for the 2005B G.O. Urban Renewal Bonds for the Streetscape Project, Owner Occupied Rehab Grant of \$145,103, receipts for the Streetscape Project of \$163,000 and for the Recreational Trail Project of \$118,331, increased interest rates and Tax Increment Financing Revenue.

The total cost of all programs and services increased by approximately 86.5% or \$2,174,504. Public Safety was down approximately \$24,000 due to the FEMA Grant received in Fiscal 2005, offset by increased salary and insurance costs, Iowa Law Enforcement Academy costs, repair to the Fire Hall paid by insurance and vehicle maintenance for 2006. Culture and Recreation was up approximately \$47,000 due to painting of the aquatic center, increased chemical cost at the aquatic center, replacement of the roof on the Civic Center, increased salary and insurance costs. Community and Economic Development was up approximately \$181,000 due to the Recreational Trail Project and the Owner Occupied Rehab Project. Debt Service was up approximately \$929,000 due to principal and interest payments for the 2005 G.O. Urban Renewal Bonds for the Streetscape Project and refunding of the G.O. Sewer Improvement and Refunding Bonds, Series 1998A. Capital Projects were up approximately \$1,038,000 due to the Streetscape Project.

The City maintained the property tax rate again in 2006. The increased gross valuations were offset by the increased residential roll-back providing for a slight increase in budgeted General Property Tax receipts.

The cost of all governmental activities this year was \$4.689 million compared to \$2.515 million last year. However, as shown in the Statement of Activities and Net Assets on pages 11-12, the amount of property taxes used to finance these activities was only \$1.221 million. Other funding came from fees paid by those directly benefited from the programs (\$262,915), by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$790,392). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2006 from \$774,211 to \$1,053,307, principally due to the Owner Occupied Rehab, Recreational Trail and Streetscape Projects. The City paid for the remaining "public benefit" portion of governmental activities with \$1,221,288 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

**City of Lake Mills' Changes in Cash Basis Net Assets  
Business Type Activities**

	<u>2006</u>	<u>2005</u>
Receipts:		
Charges for service:		
Water	\$ 281,786	\$ 264,359
Sewer	308,476	203,438
Electric	2,192,295	2,115,121
Operating grants, contributions and restricted interest	143,176	129,185
Total Receipts	<u>2,925,733</u>	<u>2,712,103</u>
Disbursements and Transfers:		
Water	189,115	170,608
Sewer	136,942	148,361
Electric	2,072,166	2,177,301
Transfers	17,554	589,952
Total Disbursements and Transfers	<u>2,415,777</u>	<u>3,086,222</u>
Increase (decrease) in Cash Basis Net Assets	509,956	(374,119)
Cash Basis Net Assets beginning of year	<u>4,988,120</u>	<u>5,362,239</u>
Cash Basis Net Assets end of year	<u>\$ 5,498,076</u>	<u>4,988,120</u>

Total business type activities receipts for the fiscal year were \$2.925 million compared to \$2.712 million last year. This increase was due to higher interest rates resulting in an increase in interest revenue, rate increases and increased electric usage resulting in increased charge for services. Total disbursements and transfers for the fiscal year were \$2.416 million compared to \$3.086 million last year. The main reason for this decrease was the transfer of funds from water, sewer and electric for the Streetscape Project, purchase of the Line Truck, a pickup and STS additions all done in Fiscal 2005. The cash balance increased by \$509,956. The major contributing factors to the increase in cash balance were: increased receipts for interest revenue and charge for service revenue, and decreased transfers and capital outlay expenditures.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Lake Mills completed the year, its governmental funds reported a combined fund balance of \$1,781,530, a decrease of \$449,374 from last year's total of \$2,230,904. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$65,319 from the prior year to \$1,057,038. The major reason for this increase was due to funds that were received in Fiscal 2006 that will be spent in Fiscal 2007.
- The Road Use Tax Fund cash balance increased by \$33,214 to \$281,452 during the fiscal year. The City intends to use this money for future upgrades to equipment and streets.
- The Urban Renewal Tax Increment Fund cash balance increased by \$15,454 to \$24,711 during the fiscal year. This balance is accumulating to make it possible for early call of the General Obligation Tax Increment Bonds for the Aquatic Center and Streetscape Project.

- The Debt Service Fund cash balance decreased by \$724,624 to \$56,031 during the fiscal year. This decrease is due to the issuance of the General Obligation Refunding Notes, Series 2005A. The proceeds from these notes were being held by Bankers Trust and were used to call the General Obligation Sewer Improvement and Refunding Bonds, Series 1998A in June of 2006.
- The Capital Projects Fund cash balance increased by \$185,244 to \$284,357 during the fiscal year. The increase is due to receipts from assessments for the 10<sup>th</sup> Avenue Street Project, the North Western Street Sewer Project, Sidewalk assessments and funds being held for final payments on the Streetscape Project.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$106,318 to \$963,254, due primarily to an increase in water rates and the implementation of a water surcharge which will be used for infrastructure maintenance and upgrades, and the water treatment plant project scheduled for Fiscal 2007 or 2008.
- The Sewer Fund cash balance increased by \$176,395 to \$374,016, due primarily to receipt of leachate revenue and an increase in rates to help cover maintenance and future upgrades to the infrastructure
- The Electric Fund cash balance increased by \$227,243 to \$4,160,806 primarily due to an increase in electric rates and the need to accumulate funds to provide funding for future infrastructure maintenance and upgrades.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 15, 2006 and resulted in an increase in disbursements related to the purchase of a police car, use of grants, donations and memorials that were received, unanticipated repairs, increased fuel prices, Bond Refunding, the Streetscape Project, and Byerly's & Fleetguard expansion projects.

**DEBT ADMINISTRATION**

At June 30, 2006, the City had \$3,930,000 in bonds and other long-term debt, compared to \$3,875,000 last year, as shown below.

<b>June 30, 2006</b>		
	As of	
	<u>6/30/2006</u>	<u>6/30/2005</u>
General Obligation Bonds	\$ 3,000,000	\$ 2,475,000
Revenue Bonds	930,000	1,400,000
Total	<u>\$ 3,930,000</u>	<u>\$ 3,875,000</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,000,000 is significantly below its constitutional debt limit of \$4,423,154.

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

The City of Lake Mills' elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's employment growth has mirrored its population growth during 1999 – 2006. The City / County's unemployment rate of 3.3 percent is slightly less than the State's unemployment rate of 3.4 percent and the National rate of 3.9 percent.

Inflation in the State for fiscal year 2006 ran close to the national level. The State's CPI increase was 3.2% and the National CPI increase was 3.4% for fiscal year 2006.

These indicators were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are \$5.217 million, an increase of 12.8% over the 2006 budget. Major contributors to the increase are: increased TIF revenues, Use of Money and Property (interest), increased Charges for Fees & Services, increased Other Financing Sources (transfer in for Debt Service on G.O. Urban Renewal Bonds, Series 2005B). Budgeted disbursements for 2007 decreased approximately 36.3% from the 2006 actual to \$5.003 million. The reason for the decrease was the refunding of the General Obligation Sewer Improvement and Refunding Bonds, Series 1998A, Capital Projects including Streetscape, the Recreational Trail and Byerly's and Fleetguard expansions all in Fiscal 2006.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$214,502 by the close of 2007.

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

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sheryl Bell, City Clerk, 105 West Main Street, Lake Mills, Iowa.

**CITY OF LAKE MILLS**  
Statement of Activities and Net Assets - Cash Basis  
As of and For the Year Ended June 30, 2006

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts Operating Grants, Contributions, and Restricted Interest</u>
Function/Programs:			
Governmental activities:			
Public safety	\$ 424,389	4,614	15,242
Public works	339,875	163,122	188,190
Culture and recreation	318,738	81,120	21,879
Community and economic development	449,145	0	173,217
General government	84,434	14,059	0
Debt service	1,357,768	0	25,176
Capital projects	1,715,417	0	0
Total Governmental Activities	<u>4,689,766</u>	<u>262,915</u>	<u>423,704</u>
Business type activities:			
Water	189,115	281,786	13,647
Sewer	136,942	308,476	4,861
Electric	<u>2,072,166</u>	<u>2,192,295</u>	<u>124,668</u>
Total Business Type Activities	<u>2,398,223</u>	<u>2,782,557</u>	<u>143,176</u>
Total	<u>\$ 7,087,989</u>	<u>3,045,472</u>	<u>566,880</u>

General Receipts:

Property tax levied for:  
General purposes  
Tax increment financing  
Debt service  
Local option sales tax  
Unrestricted interest on investments  
Sale of assets  
Proceeds of long-term debt  
Miscellaneous  
Transfers

Total General Receipts

Change in Cash Basis Net Assets

Cash Basis Net Assets at Beginning of Year

Cash Basis Net Assets at End of Year

Cash Basis Net Assets:

Restricted:  
Streets  
Urban renewal purposes  
Debt service  
Unrestricted

Total Cash Basis Net Assets

The accompanying notes are an integral part of these financial statements.

**CITY OF LAKE MILLS**  
Statement of Activities and Net Assets - Cash Basis  
As of and For the Year Ended June 30, 2006

Capital Grants, Contributions, and Restricted <u>Interest</u>	<u>Net (Disbursements) Receipts and Changes in Cash Basis Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
0	(404,533)	0	(404,533)
0	11,437	0	11,437
0	(215,739)	0	(215,739)
155,344	(120,584)	0	(120,584)
0	(70,375)	0	(70,375)
0	(1,332,592)	0	(1,332,592)
211,344	(1,504,073)	0	(1,504,073)
<u>366,688</u>	<u>(3,636,459)</u>	<u>0</u>	<u>(3,636,459)</u>
0	0	106,318	106,318
0	0	176,395	176,395
0	0	244,797	244,797
<u>0</u>	<u>0</u>	<u>527,510</u>	<u>527,510</u>
<u>366,688</u>	<u>(3,636,459)</u>	<u>527,510</u>	<u>(3,108,949)</u>
	385,213	0	385,213
	663,129	0	663,129
	172,946	0	172,946
	138,344	0	138,344
	70,243	0	70,243
	5,000	0	5,000
	1,698,829	0	1,698,829
	35,827	0	35,827
	17,554	(17,554)	0
	<u>3,187,085</u>	<u>(17,554)</u>	<u>3,169,531</u>
	(449,374)	509,956	60,582
	2,230,904	4,988,120	7,219,024
	<u>\$ 1,781,530</u>	<u>5,498,076</u>	<u>7,279,606</u>
\$ 281,452	0	281,452	
24,711	0	24,711	
56,031	1,357,744	1,413,775	
1,419,336	4,140,332	5,559,668	
<u>\$ 1,781,530</u>	<u>5,498,076</u>	<u>7,279,606</u>	

**CITY OF LAKE MILLS**  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances - Governmental Funds  
As of and For the Year Ended June 30, 2006

	<u>General</u>	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Capital Projects</u>
		<u>Road Use Tax</u>	<u>TIF</u>		
Receipts:					
Property tax	\$ 328,910	0	0	172,419	0
TIF revenues	0	0	663,129	0	0
Other city taxes	139,741	0	0	527	0
Licenses and permits	4,596	0	0	0	0
Use of money and property	75,775	0	0	25,176	19,075
Intergovernmental	38,146	180,608	0	0	308,103
Charges for services	232,693	0	0	0	0
Special assessments	0	0	0	0	18,156
Miscellaneous	43,093	0	0	0	11,113
<b>Total Receipts</b>	<u>862,954</u>	<u>180,608</u>	<u>663,129</u>	<u>198,122</u>	<u>356,447</u>
Disbursements:					
Operating:					
Public safety	400,905	0	0	0	0
Public works	184,531	147,394	0	0	0
Culture and recreation	318,738	0	0	0	0
Community and economic development	31,642	0	60,249	0	147,533
General government	70,062	0	0	0	0
Capital outlay:					
Public safety	23,484	0	0	0	0
Debt service	0	0	0	1,357,768	0
Capital projects	0	0	0	0	1,715,417
<b>Total Disbursements</b>	<u>1,029,362</u>	<u>147,394</u>	<u>60,249</u>	<u>1,357,768</u>	<u>1,862,950</u>
Excess (Deficit) of Receipts over (under) Disbursements	<u>(166,408)</u>	<u>33,214</u>	<u>602,880</u>	<u>(1,159,646)</u>	<u>(1,506,503)</u>
Other Financing Sources:					
Proceeds of long-term debt	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,698,829</u>
	(166,408)	33,214	602,880	(1,159,646)	192,326
Transfers:					
Operating transfers in	231,727	0	0	435,022	0
Operating transfers out	0	0	(587,426)	0	(7,082)
	<u>231,727</u>	<u>0</u>	<u>(587,426)</u>	<u>435,022</u>	<u>(7,082)</u>
Net Change in Cash Balances	65,319	33,214	15,454	(724,624)	185,244
Cash Balances at Beginning of Year	991,719	248,238	9,257	780,655	99,113
Cash Balances at End of Year	<u>\$ 1,057,038</u>	<u>281,452</u>	<u>24,711</u>	<u>56,031</u>	<u>284,357</u>
Cash Basis Fund Balances:					
Reserved:					
Debt Service	\$ 0	0	0	56,031	0
Unreserved:					
General fund	1,057,038	0	0	0	0
Special revenue funds	0	281,452	24,711	0	0
Capital projects fund	0	0	0	0	284,357
Permanent fund	0	0	0	0	0
	<u>\$ 1,057,038</u>	<u>281,452</u>	<u>24,711</u>	<u>56,031</u>	<u>284,357</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LAKE MILLS**  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances - Governmental Funds  
As of and For the Year Ended June 30, 2006

Other Nonmajor Governmental Funds	<u>Total</u>
54,906	556,235
0	663,129
0	140,268
0	4,596
2,330	122,356
118,331	645,188
0	232,693
0	18,156
87,182	141,388
<u>262,749</u>	<u>2,524,009</u>
0	400,905
7,950	339,875
0	318,738
209,721	449,145
14,372	84,434
0	23,484
0	1,357,768
0	1,715,417
<u>232,043</u>	<u>4,689,766</u>
<u>30,706</u>	<u>(2,165,757)</u>
<u>0</u>	<u>1,698,829</u>
30,706	(466,928)
0	666,749
(54,687)	(649,195)
<u>(54,687)</u>	<u>17,554</u>
(23,981)	(449,374)
101,922	2,230,904
<u>77,941</u>	<u>1,781,530</u>
0	56,031
0	1,057,038
59,198	365,361
0	284,357
18,743	18,743
<u>77,941</u>	<u>1,781,530</u>

**CITY OF LAKE MILLS**  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances - Proprietary Funds  
As of and For the Year Ended June 30, 2006

	<u>Enterprise Funds</u>			<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	
Operating Receipts:				
Charges for services	\$ 280,786	193,833	2,188,029	2,662,648
Miscellaneous	1,000	114,643	4,266	119,909
Total Operating Receipts	<u>281,786</u>	<u>308,476</u>	<u>2,192,295</u>	<u>2,782,557</u>
Disbursements:				
Operating:				
Business type activities	189,115	136,942	1,427,428	1,753,485
Capital outlay:				
Business type activities	0	0	113,255	113,255
Total Operating Disbursements	<u>189,115</u>	<u>136,942</u>	<u>1,540,683</u>	<u>1,866,740</u>
Excess ( Deficit) of Operating Receipts over (under) Operating Disbursements	<u>92,671</u>	<u>171,534</u>	<u>651,612</u>	<u>915,817</u>
Non-Operating Receipts (Disbursements)				
Use of money and property	13,647	4,861	124,668	143,176
Debt service	0	0	(531,483)	(531,483)
Total Non-Operating Receipts (Disbursements)	<u>13,647</u>	<u>4,861</u>	<u>(406,815)</u>	<u>(388,307)</u>
Operating Transfers Out	<u>0</u>	<u>0</u>	<u>(17,554)</u>	<u>(17,554)</u>
Net Change in Cash Balances	106,318	176,395	227,243	509,956
Cash Balances at Beginning of Year	<u>856,936</u>	<u>197,621</u>	<u>3,933,563</u>	<u>4,988,120</u>
Cash Balances at End of Year	<u>\$ 963,254</u>	<u>374,016</u>	<u>4,160,806</u>	<u>5,498,076</u>
Cash Basis Fund Balances:				
Restricted:				
Restricted for debt service	\$ 0	0	1,357,744	1,357,744
Unrestricted:				
Unreserved	<u>963,254</u>	<u>374,016</u>	<u>2,803,062</u>	<u>4,140,332</u>
Total Cash Basis Fund Balances	<u>\$ 963,254</u>	<u>374,016</u>	<u>4,160,806</u>	<u>5,498,076</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LAKE MILLS**  
Notes to the Financial Statements  
June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Lake Mills is a political subdivision of the State of Iowa located in Winnebago County. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis.

Reporting Entity

For financial reporting purposes, the City of Lake Mills has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

The City of Lake Mills has no component units.

The City also participates in jointly governed organizations that provide goods or services to the citizens of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Winnebago County Communications Board, Winnebago County E911 Board and Winnebago County Assessors Compensation Board.

Basis of Presentation

Government-wide Financial Statements

The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported as general receipts.

**CITY OF LAKE MILLS**  
Notes to the Financial Statements - Continued

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

Special Revenue Funds:

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

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

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

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

The City reports the following major proprietary funds:

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

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

Electric Fund – The Electric Fund accounts for the operation and maintenance of the City's electric utility system.

Measurement Focus and Basis of Accounting

The City of Lake Mills maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**CITY OF LAKE MILLS**  
Notes to the Financial Statements – Continued

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, amounts expended in the debt service function exceeded amounts budgeted.

2) Pooled Deposits and Investments

The City's deposits 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.

Funds that have deficit cash in bank balances are considered to have borrowed cash from other 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 and the Treasurer of the State of Iowa; 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 investments at June 30, 2006 included \$546,206 deposited with the Iowa Public Agency Investment Trust and \$145,294 deposited with the Wisconsin State Treasurer through the Western Wisconsin Municipal Power Group.

(3) Long-Term Debt

A summary of the City's June 30, 2006 long-term debt is as follows:

<u>Maturity</u>	<u>Interest Rates</u>	<u>General Obligation Bonds</u>		<u>Revenue Bonds</u>		<u>Total</u>
		<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2007	2.70 - 4.40%	425,000	99,028	485,000	40,920	1,049,948
2008	2.80 - 4.40	345,000	86,577	445,000	19,580	896,157
2009	2.90 - 3.80	370,000	75,783	0	0	445,783
2010	3.05 - 4.00	385,000	63,737	0	0	448,737
2011	3.10 - 4.00	395,000	50,713	0	0	445,713
		<u>1,920,000</u>	<u>375,838</u>	<u>930,000</u>	<u>60,500</u>	<u>3,286,338</u>
2012-2016	3.25 - 3.65	1,080,000	105,647	0	0	1,185,647
		<u>\$ 3,000,000</u>	<u>481,485</u>	<u>930,000</u>	<u>60,500</u>	<u>4,471,985</u>

Interest paid on general obligation bonds amounted to \$150,992 and interest paid on revenue bonds amounted to \$61,483 during the year ended June 30, 2006. All of these interest amounts were expensed.

Cash restricted for the payment of bonds at June 30, 2006 is as follows:

General Obligation Bonds	\$ 56,031
Revenue Bonds	11,927
	<u>\$ 67,958</u>

**CITY OF LAKE MILLS**  
Notes to the Financial Statements - Continued

Required transfers from the Electric Revenue Fund to the Electric Revenue Bond Sinking Fund are as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Amount</u>
2007	\$ 525,920
2008	464,580
	<u>\$ 990,500</u>

Changes in the general long-term debt account group during the year ended June 30, 2006 are summarized as follows:

Balance at beginning of year	\$ 2,475,000
New debt issued	1,730,000
Principal paid	(1,205,000)
Balance at end of year	<u>\$ 3,000,000</u>

(4) Retirement System - IPERS

The City is a participating employer in the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.90%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$51,087, \$50,369, and \$48,336, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as expenditures by the City until used or paid. The City's approximate maximum liability for unrecognized accrued employee benefits at June 30, 2006 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 43,802
Sick leave	97,922
	<u>\$ 141,724</u>

The liability has been computed based on rates of pay as of June 30, 2006.

**CITY OF LAKE MILLS**  
Notes to the Financial Statements – Continued

- (6) Risk Management  
The City of Lake Mills is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.
- (7) Property Tax Calendar  
Property taxes are collected and remitted to the City by the county government. Taxes are levied annually on July 1 based on an assessment as of January 1. Taxes are due one-half on September 30 in the year following the levy and one-half on the subsequent March 31. The lien date is July 1. Current and delinquent tax payments are recognized as receipts by the City when received.
- (8) Related Party Transactions  
During the year ended June 30, 2006, the City purchased goods and services from a business owned by a city official totaling \$9,747.
- (9) Notes Receivable  
The City is the holder of notes receivable in connection with a revolving loan fund established through Community Development Block Grants. The interest free loans are as follows:

Dras Cases, Inc.	\$ 50,000
Quality Composites	18,480
From the Heart	4,500
Lake Mills Motor Company	30,000
Fleetguard, Inc.	50,000
Cavett's Lawn and Garden Center	50,000
	<u>\$ 202,980</u>

A city official is an officer of Quality Composites, even though he was not a city official at the time the loan was made to this company. During the year ended June 30, 2006, Quality Composites repaid \$6,160 on the loan.

- (10) Interfund Transfers  
The detail of interfund transfers during the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General Fund	Special Revenue Fund - Employee Benefits	\$ 54,687
	Special Revenue Fund - TIF	52,404
	Capital Projects Fund	3,283
	Proprietary Fund - Electric	121,353
		<u>231,727</u>
Debt Service Fund	Special Revenue Fund - TIF	435,022
Proprietary Fund - Electric	Special Revenue Fund - TIF	100,000
	Capital Projects Fund	3,799
		<u>103,799</u>
		<u>\$ 770,548</u>

**CITY OF LAKE MILLS**  
Notes to the Financial Statements – Continued

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

- (11) Major Customer  
The City of Lake Mills Enterprise Funds have one major customer which accounted for 28% of the charges for services in the enterprise funds during the year ended June 30, 2006.
  
- (12) Commitments  
At June 30, 2006, the City had commitments on open construction contracts totaling \$213,910.

**CITY OF LAKE MILLS**  
 Budgetary Comparison Schedule of Receipts, Disbursements  
 and Changes in Cash Balances - Budget and Actual (Cash Basis)  
 All Governmental and Proprietary Funds  
 Year Ended June 30, 2006

	Governmental <u>Funds</u>	Proprietary <u>Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 556,235	0	556,235
TIF revenues	663,129	0	663,129
Other city taxes	140,268	0	140,268
Licenses and permits	4,596	0	4,596
Use of money and property	122,356	143,176	265,532
Intergovernmental	645,188	0	645,188
Charges for services	232,693	2,662,648	2,895,341
Special assessments	18,156	0	18,156
Miscellaneous	141,388	119,909	261,297
 Total Receipts	 <u>\$ 2,524,009</u>	 <u>2,925,733</u>	 <u>5,449,742</u>
Disbursements:			
Public safety	424,389	0	424,389
Public works	339,875	0	339,875
Culture and recreation	318,738	0	318,738
Community and economic development	449,145	0	449,145
General government	84,434	0	84,434
Debt service	1,357,768	0	1,357,768
Capital projects	1,715,417	0	1,715,417
Business type activities	0	2,398,223	2,398,223
 Total Disbursements	 <u>4,689,766</u>	 <u>2,398,223</u>	 <u>7,087,989</u>
Excess (Deficit) of Receipts over (under) Disbursements	(2,165,757)	527,510	(1,638,247)
Other Financing Sources (net)	<u>1,716,383</u>	<u>(17,554)</u>	<u>1,698,829</u>
Excess (Deficit) of Receipts and Other Financing Sources over (under) Disbursements and Other Financing Uses	(449,374)	509,956	60,582
Balances at Beginning of Year	2,230,904	4,988,120	7,219,024
Balances at End of Year	<u>\$ 1,781,530</u>	<u>5,498,076</u>	<u>7,279,606</u>

**CITY OF LAKE MILLS**  
 Budgetary Comparison Schedule of Receipts, Disbursements  
 and Changes in Cash Balances - Budget and Actual (Cash Basis)  
 All Governmental and Proprietary Funds  
 Year Ended June 30, 2006

<u>Budgeted Amounts</u>		<u>Variance to Final</u>
<u>Original</u>	<u>Amended</u>	
548,972	548,972	7,263
500,000	627,150	35,979
128,490	142,108	(1,840)
3,475	3,775	821
99,400	118,400	147,132
198,705	655,422	(10,234)
2,618,286	2,702,648	192,693
0	0	18,156
73,746	137,546	123,751
<u>4,171,074</u>	<u>4,936,021</u>	<u>513,721</u>
410,528	432,229	7,840
356,225	370,266	30,391
284,649	325,019	6,281
270,275	631,333	182,188
103,691	102,054	17,620
425,208	1,331,595	(26,173)
0	1,894,052	178,635
2,275,445	2,457,427	59,204
<u>4,126,021</u>	<u>7,543,975</u>	<u>455,986</u>
45,053	(2,607,954)	969,707
<u>0</u>	<u>1,698,829</u>	<u>0</u>
45,053	(909,125)	969,707
6,580,722	7,219,022	2
<u>6,625,775</u>	<u>6,309,897</u>	<u>969,709</u>

**CITY OF LAKE MILLS**  
Notes to Required Supplementary Information  
June 30, 2006

The budgetary comparison is presented as required supplementary information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These 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. During the year, one budget amendment increased budgeted disbursements by \$3,417,954. The budget amendment is reflected in the final budgeted figures.

During the year ended June 30, 2006, disbursements exceeded amounts budgeted in the debt service function.

**CITY OF LAKE MILLS**  
Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances -  
Nonmajor Governmental Funds  
As of and For the Year Ended June 30, 2006

	<u>Special Revenue</u>		
	<u>Employee</u>	<u>Revolving</u>	
	<u>Benefits</u>	<u>Loan Fund</u>	<u>Permanent</u>
Receipts:			
Property tax	\$ 54,906	0	0
Use of money and property	0	1,954	376
Intergovernmental	0	0	118,331
Miscellaneous	0	26,160	61,022
Total Receipts	54,906	28,114	179,729
Disbursements:			
Operating:			
Public works	0	0	7,950
Community and economic development	0	50,000	159,721
General government	0	0	14,372
Total Disbursements	0	50,000	182,043
Excess (Deficit) of Receipts over (under) Disbursements	54,906	(21,886)	(2,314)
Operating transfers out	(54,687)	0	0
Net Change in Cash Balances	219	(21,886)	(2,314)
Cash Balances at Beginning of Year	0	80,865	21,057
Cash Balances at End of Year	\$ 219	58,979	18,743
Cash Basis Cash Balances:			
Unreserved:			
Special revenue funds	\$ 219	58,979	0
Permanent fund	0	0	18,743
	\$ 219	58,979	18,743

**CITY OF LAKE MILLS**  
Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances -  
Nonmajor Governmental Funds  
As of and For the Year Ended June 30, 2006

Total

54,906  
2,330  
118,331  
87,182

262,749

7,950  
209,721  
14,372

232,043

30,706

(54,687)

(23,981)

101,922

77,941

59,198

18,743

77,941

**CITY OF LAKE MILLS**  
 Schedule of Long-Term Debt and Interest  
 June 30, 2006

	<u>Date of Issue</u>	<u>Interest Rates</u>
General Obligation Bonds:		
Sewer Improvement and Refunding	April 1, 1998	4.10% - 5.10%
G.O. Refunding Bonds	April 1, 1998	4.05% - 4.45%
G.O. Urban Renewal	November 1, 2001	2.50% - 4.00%
G.O. Refunding	April 1, 2005	2.70% - 3.35%
G.O. Urban Renewal	July 1, 2005	2.75% - 3.65%
Total General Obligation Bonds		
Revenue Bonds:		
Electric	June 30, 1998	4.375% - 4.40%
Grand Total		

**CITY OF LAKE MILLS**  
Schedule of Long-Term Debt and Interest  
June 30, 2006

Amount Originally Issued	Balance June 30, 2005	Issued	Redeemed	Balance June 30, 2006	Interest Paid
\$ 1,815,000	\$ 885,000	0	885,000	0	42,270
450,000	75,000	0	75,000	0	3,338
1,100,000	770,000	0	115,000	655,000	28,400
745,000	745,000	0	0	745,000	26,098
1,730,000	0	1,730,000	130,000	1,600,000	50,886
	<u>2,475,000</u>	<u>1,730,000</u>	<u>1,205,000</u>	<u>3,000,000</u>	<u>150,992</u>
2,575,000	<u>1,400,000</u>	<u>0</u>	<u>470,000</u>	<u>930,000</u>	<u>61,483</u>
	<u>\$ 3,875,000</u>	<u>1,730,000</u>	<u>1,675,000</u>	<u>3,930,000</u>	<u>212,475</u>

**CITY OF LAKE MILLS**

Bond Maturities

June 30, 2006

General Obligation Bonds

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Urban Renewal</u> <u>Issued 11-1-01</u>		<u>G.O. Refunding</u> <u>Issued 4-1-05</u>		<u>Urban Renewal</u> <u>Issued 7-1-05</u>	
	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2007	3.40%	\$ 120,000	2.70%	170,000	2.80%	135,000
2008	3.60	125,000	2.80	85,000	2.90	135,000
2009	3.80	130,000	2.90	95,000	3.00	145,000
2010	4.00	135,000	3.05	100,000	3.05	150,000
2011	4.00	145,000	3.10	95,000	3.15	155,000
2012	--	--	3.30	100,000	3.25	160,000
2013	--	--	3.35	100,000	3.35	170,000
2014	--	--	--	--	3.45	175,000
2015	--	--	--	--	3.55	185,000
2016	--	--	--	--	3.65	190,000
		<u>\$ 655,000</u>		<u>745,000</u>		<u>1,600,000</u>

Electric Revenue Bonds

Issued 6-30-98

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Interest</u>	
	<u>Rates</u>	<u>Amount</u>
2007	4.40%	\$ 485,000
2008	4.40	445,000
		<u>\$ 930,000</u>

**CITY OF LAKE MILLS**

Bond Maturities

June 30, 2006

<u>Total</u>
425,000
345,000
370,000
385,000
395,000
260,000
270,000
175,000
185,000
190,000
<u>3,000,000</u>

**CITY OF LAKE MILLS**

Schedule of Receipts by Source and Disbursements by Function  
All Governmental Funds

	Years Ended June 30,			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:				
Property tax	\$ 556,235	544,505	565,217	587,057
TIF revenues	663,129	553,230	458,163	415,475
Other city taxes	140,268	132,969	137,841	126,999
Licenses and permits	4,596	3,769	3,480	3,988
Use of money and property	122,356	52,117	30,279	43,952
Intergovernmental	645,188	397,101	226,039	375,358
Charges for services	232,693	205,340	206,891	197,821
Special assessments	18,156	38,204	16,938	14,803
Miscellaneous	141,388	158,392	153,762	187,930
 Total Receipts	 <u>\$ 2,524,009</u>	 <u>2,085,627</u>	 <u>1,798,610</u>	 <u>1,953,383</u>
Disbursements:				
Public safety	\$ 424,389	448,647	374,684	417,936
Public works	339,875	339,900	286,947	341,063
Culture and recreation	318,738	271,641	282,080	299,818
Community and economic development	449,145	267,539	263,195	230,929
General government	84,434	81,583	94,410	80,268
Debt service	1,357,768	428,635	420,567	427,223
Capital projects	1,715,417	677,317	183,902	0
 Total Disbursements	 <u>\$ 4,689,766</u>	 <u>2,515,262</u>	 <u>1,905,785</u>	 <u>1,797,237</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and  
Members of the City Council  
City of Lake Mills, Iowa

I 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 Lake Mills, Iowa as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued my report thereon dated August 16, 2006. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my 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 my audit, I considered the City of Lake Mills' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Lake Mills' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

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 an 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. My 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, of the reportable conditions described above, I believe none of the items are material weaknesses. Prior year reportable conditions have been resolved except for item 06-II-A.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lake Mills' financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City' operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my 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. Prior year statutory comments have been resolved except for items 06-III-A and 06-III-D and 06-III-I.

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 Lake Mills and other parties to whom the City of Lake Mills may report. This report is not intended to be and should not be used by anyone other than these specified parties.

S/Stanley E. Siebke

Urbandale, Iowa  
August 16, 2006

**CITY OF LAKE MILLS**  
Schedule of Findings  
Year Ended June 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements which were prepared in conformity with another comprehensive basis of accounting.
- (b) A reportable condition 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.

**CITY OF LAKE MILLS**  
Schedule of Findings  
Year Ended June 30, 2006

Part II: Findings Related to the Financial Statements

Instances of non-compliance

No matters were noted.

Reportable Conditions

06-II-A Segregation of Duties

One important aspect of the internal control over financial reporting is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that one employee is involved in cash receipts, cash disbursements and bank deposits.

I realize that with the limited number of employees, improvement of these controls is not economically feasible. However, I believe that management of the City should be aware of the situation.

Response: The City Council is aware of this situation.

Conclusion: Response accepted.

**CITY OF LAKE MILLS**  
Schedule of Findings  
Year Ended June 30, 2006

Part III: Other Findings Related to Statutory Reporting

06-III-A Certified Budget

City expenditures during the year ended June 30, 2006 exceeded amounts budgeted therefore in the debt service program. Chapter 384 of the Code of Iowa prohibits such budget overruns. City officials should carefully monitor expenditures and prepare budget amendments when necessary.

Response: This program was underestimated in preparing the budget amendment. We will take more care in preparing budget amendments to be certain all necessary items are included.

Conclusion: Response accepted.

06-III-B Questionable Disbursements

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

06-III-C Travel Expense

No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.

06-III-D Business Transactions

The City purchased goods and services from the following City official during the year:

Dave's 66 Service	David Anderson	\$ 9,747
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Since the payments are in excess of \$2,500, they are in violation of Chapter 362.5(11) of the Code of Iowa.

Response: The City's policy is to purchase goods and services from local businesses when possible.

Conclusion: Response accepted.

06-III-E Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions.

06-III-F Council Minutes

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

06-III-G Electric Revenue Bonds

The provisions of the resolution for the issuance of the revenue bonds relating to funding of the sinking funds were followed.

06-III-H Deposits and Investments

I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

**CITY OF LAKE MILLS**  
Schedule of Findings  
Year Ended June 30, 2006

06-III-I Economic Development

The City of Lake Mills paid \$31,500 to the Lake Mills Community Development Corporation which may not be an appropriate expenditure of public funds.

In accordance with Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. These provisions stipulate that the governing body should evaluate the public benefits to be obtained and discuss specific criteria to be considered in documenting the public purpose. The Council should evaluate and document the public purpose served by the expenditure before authorizing further payments and should require the Lake Mills Community Development Corporation to provide documentation of how the funds were used to accomplish economic development activities.

Response: We will do this.

Conclusion: Response accepted.