

**CITY OF STORM LAKE, IOWA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2007**

# Table of Contents

---

<b>Officials</b> .....	1
<b>Independent Auditor's Report</b> .....	2-3
<b>Management's Discussion and Analysis</b> .....	4-10
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements	
Statement of Net Assets .....	11
Statement of Activities .....	12
Governmental Fund Financial Statements	
Balance Sheet.....	13
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets...	14
Statement of Revenue, Expenditures and Changes in Fund Balances .....	15
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statements of Activities .....	16
Proprietary Fund Financial Statements	
Statement of Net Assets .....	17
Statement of Revenue, Expenses and Changes in Net Assets .....	18
Reconciliation of the Statement of Revenue, Expenses and Changes in Net Assets - Proprietary Funds to the Statement of Activities.....	19
Statement of Cash Flows.....	20
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets.....	21
Statement of Changes in Fiduciary Net Assets .....	22
Notes to the Financial Statements.....	23-39
<b>Required Supplementary Information</b>	
Schedule of Budgetary Comparison of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds.....	40
Schedule of Budgetary Comparison - Budget to GAAP Reconciliation .....	41
<b>Other Supplementary Information</b>	
Nonmajor Governmental Funds	
Combining Balance Sheet Schedule .....	42
Combining Schedule of Revenue, Expenditures and Changes in Fund Balances .....	43
Nonmajor Proprietary Funds	
Combining Statement of Net Assets .....	44
Combining Statement of Revenue, Expenses and Changes in Net Assets.....	45
Schedule of Changes in Assets and Liabilities - Agency Fund .....	46
Schedule of Revenue by Source and Expenditures by Function - All Governmental Funds.....	47
<b>Financial Assistance Section</b>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters .....	48-50

# Officials

---

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<b>Elected Officials</b>		
Jon Kruse	Mayor	January, 2010
Dennis Vaudt	Mayor Pro Tem	January, 2010
Wally Burns	Council Member	January, 2008
Julie Egland	Council Member	January, 2008
Sara Monroy-Huddleston	Council Member	January, 2008
James Treat	Council Member	January, 2010
<b>Appointed Officials</b>		
Patti Moore	City Administrator	Indefinite
Justin Yarosevich	City Clerk	Indefinite
Paul Havens	Attorney	Indefinite

## **Independent Auditor's Report**

---

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

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, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Storm Lake, Iowa's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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, Iowa, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2007 on our consideration of the City of Storm Lake, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Honorable Mayor and  
Members of the City Council  
Page 2

Management's Discussion and Analysis and budgetary comparison information on Pages 4 through 10 and Page 40 and 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Storm Lake, Iowa's basic financial statements. The financial statements and supplemental data for the years ended June 30, 2006, 2005 and 2004 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the second paragraph of this report who expressed unqualified opinions on those financial statements and supplemental data. Other supplementary information included on Pages 42 through 47 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.

*HOGAN - HANSEN*

HOGAN - HANSEN

Mason City, Iowa  
November 8, 2007

## **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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

Total revenue for the City increased 48%, or approximately \$6,450,000, from fiscal year 2006 to fiscal year 2007. Most of this increase came from bond proceeds for Project ALWAYSIS. Property tax revenue increased by approximately \$69,000. Most of this increase occurred within the employee benefits levy to cover increased health insurance costs.

Program expenses increased 11%, or approximately \$1,200,000, from fiscal year 2006 to fiscal year 2007. Interest on long-term debt increased \$524,224 while Culture and Recreation and General Government expenses decreased \$350,924 and \$48,819, respectively, and Public Safety, Public Works expenses increased \$26,379 and \$207,528, respectively. The increase in the Public Works program comes from the combination of East Lakeshore Drive, Hwy 7, and Sunrise Park Road.

The City's net assets increased 31%, or \$9,914,771, from June 30, 2006 to June 30, 2007. Of this amount, the net assets of the governmental activities decreased \$1,957,097 and the assets of the business-type activities increased by \$11,871,868. The majority of the increase in net assets is the result of the construction of King's Pointe Resort.

### **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 Statements consist of a Statement of Net Assets and a Statement of Activities. These statements 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 nonmajor special revenue funds.

## **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 off 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 revenue 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, revenue 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 is divided into two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business-type activities include the waterworks, 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. The governmental funds include: (a) the General Fund, (b) the Special Revenue Funds, such as tax increment financing revenue, local option sales tax, and employee benefits tax levy, (c) the Debt Service Fund, and (d) 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 revenue, 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. 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 revenue, expenses and changes in 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 net assets for governmental and business-type activities.

### Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 12,286,540	\$ 13,645,565	\$ 9,704,475	\$ 11,451,869	\$ 21,991,015	\$ 25,097,434
Capital assets	<u>20,103,276</u>	<u>13,454,439</u>	<u>35,783,975</u>	<u>18,751,201</u>	<u>55,887,251</u>	<u>32,205,640</u>
<b>Total Assets</b>	<b><u>32,389,816</u></b>	<b><u>27,100,004</u></b>	<b><u>45,488,450</u></b>	<b><u>30,203,070</u></b>	<b><u>77,878,266</u></b>	<b><u>57,303,074</u></b>
Long-term liabilities	19,195,000	11,763,438	7,370,360	7,077,880	26,565,360	18,841,318
Other liabilities	<u>5,010,780</u>	<u>5,195,433</u>	<u>3,599,824</u>	<u>478,792</u>	<u>8,610,604</u>	<u>5,674,225</u>
<b>Total Liabilities</b>	<b><u>24,205,780</u></b>	<b><u>16,958,871</u></b>	<b><u>10,970,184</u></b>	<b><u>7,556,672</u></b>	<b><u>35,175,964</u></b>	<b><u>24,515,543</u></b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	588,276	5,021,523	28,101,087	11,727,680	28,689,363	16,749,203
Restricted	23,960	3,764,690	648,035	8,383,298	671,995	12,147,988
Unrestricted	<u>7,571,800</u>	<u>1,354,920</u>	<u>5,769,144</u>	<u>2,535,420</u>	<u>13,340,944</u>	<u>3,890,340</u>
<b>Total Net Assets</b>	<b><u>\$ 8,184,036</u></b>	<b><u>\$ 10,141,133</u></b>	<b><u>\$ 34,518,266</u></b>	<b><u>\$ 22,646,398</u></b>	<b><u>\$ 42,702,302</u></b>	<b><u>\$ 32,787,531</u></b>

Total net assets increased from 2006 by \$9,914,771, or 31%. 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 \$13,340,944 at the end of this year.

## Statement of Activities

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Revenue</b>						
Program Revenue						
Charges for service	\$ 850,671	\$ 588,776	\$ 4,237,942	\$ 4,053,611	\$ 5,088,613	\$ 4,642,387
Operating grants, contributions and restricted interest	1,026,656	1,379,470	6,085,517	—	7,112,173	1,379,470
Capital grants, contributions and restricted interest	1,658,728	1,569,477	—	1,726,227	1,658,728	3,295,704
<b>General Revenue</b>						
Property Tax Levied for						
General purposes	1,984,354	1,924,592	—	—	1,984,354	1,924,592
Employee benefits	716,274	593,848	—	—	716,274	593,848
Debt service	277,806	391,469	—	—	277,806	391,469
Tax increment financing	83,873	84,850	—	—	83,873	84,850
Local option sales tax	1,022,119	836,898	—	—	1,022,119	836,898
Unrestricted investment earnings	579,340	93,048	199,944	177,671	779,284	270,719
Miscellaneous	13,451	4,713	—	—	13,451	4,713
Gain on sale of property	1,140,019	—	—	—	1,140,019	—
Transfers	(6,811,808)	(6,336,613)	6,811,808	6,336,613	—	—
<b>Total Revenue</b>	<b><u>2,541,483</u></b>	<b><u>1,130,528</u></b>	<b><u>17,335,211</u></b>	<b><u>12,294,122</u></b>	<b><u>19,876,694</u></b>	<b><u>13,424,650</u></b>
<b>Program Expenses</b>						
Public Safety	2,104,701	2,078,322	—	—	2,104,701	2,078,322
Public Works	1,262,035	1,054,507	—	—	1,262,035	1,054,507
Health and Social Services	12,850	10,700	—	—	12,850	10,700
Culture and Recreation	816,660	1,167,584	—	—	816,660	1,167,584
Community and Economic Development	351,232	569,014	—	—	351,232	569,014
General Government	342,207	391,026	—	—	342,207	391,026
Capital Projects	165,411	—	—	—	165,411	—
Interest on long-term debt	795,097	270,873	—	—	795,097	270,873
Water	—	—	2,526,039	2,532,479	2,526,039	2,532,479
Wastewater	—	—	1,649,064	1,633,672	1,649,064	1,633,672
Sanitation	—	—	360,987	344,822	360,987	344,822
Storm Water	—	—	106,460	82,100	106,460	82,100
Lodge	—	—	807,870	129	807,870	129
<b>Total Expenses</b>	<b><u>5,850,193</u></b>	<b><u>5,542,026</u></b>	<b><u>5,450,420</u></b>	<b><u>4,593,202</u></b>	<b><u>11,300,613</u></b>	<b><u>10,135,228</u></b>
<b>Change in Net Assets</b>	<b>(3,308,710)</b>	<b>(4,411,498)</b>	<b>11,884,791</b>	<b>7,700,920</b>	<b>8,576,081</b>	<b>3,289,422</b>
Net Assets - Beginning of Year, as restated	<u>11,492,746</u>	<u>14,552,631</u>	<u>22,633,475</u>	<u>14,945,478</u>	<u>34,126,221</u>	<u>29,498,109</u>
<b>Net Assets - End of Year</b>	<b><u>\$ 8,184,036</u></b>	<b><u>\$ 10,141,133</u></b>	<b><u>\$ 34,518,266</u></b>	<b><u>\$ 22,646,398</u></b>	<b><u>\$ 42,702,302</u></b>	<b><u>\$ 32,787,531</u></b>

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

### ***Governmental Fund Highlights***

As the City of Storm Lake completed the year, its governmental funds reported a combined fund balance of \$6,300,172, a decrease of \$1,578,139 from last year's total of \$7,878,311. 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 an increase of \$289,301 from the prior year to \$1,194,756.

The Capital Projects Fund decreased by \$2,022,650 from the prior year to \$2,898,616. 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 2007 with a \$6,270,773 net asset balance compared to the prior year ending net asset balance, as restated, of \$6,256,211.

The Wastewater Fund, which accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system, ended 2007 with a \$5,650,903 net asset balance compared to the prior year ending net asset balance, as restated, of \$6,044,077.

The Lodge Fund, which accounts for the operation and maintenance of King's Pointe Resort, ended 2007 with a \$21,284,432 net asset balance compared to the prior year ending net asset balance of \$9,591,072. The increase in net assets is the result of the continued construction of King's Pointe Resort and Waterpark.

The Internal Service Funds are used by management to charge the cost of employee health benefits, technology purchases, and fleet purchases to the individual funds. The net assets of the Internal Service Fund decreased by \$28,413 to \$877,892.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once in May of 2007. The amendment was needed to cover additional expenses within the Public Safety program for bullet-proof vests, additional expenditures within the Public Works program for the large snowstorms that occurred in the year, additional expenditures within the Culture and Recreation program for the startup of the new outdoor waterpark, and additional expenditures within the General Government program for additional insurance premiums related to the construction of Project AWAYSIS.

The combined tax levy for the City of Storm Lake in 2007 increased \$0.22 to \$13.70 per thousand. The employee benefits levy increased \$0.17 to cover increased costs related to the City's health insurance plan. The combined effect of the City's tax levy and the increased residential rollback on a \$100,000 home was an increase of \$4 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 \$20,103,276 (net of accumulated depreciation) at June 30, 2007. Capital assets for business-type activities totaled \$35,783,975 (net of accumulated depreciation) at June 30, 2007. See Note 4 to the financial statements for more information about the City's capital assets.

The major capital outlays for governmental activities during the year included East Lakeshore Drive and Project AWAYSIS which includes the King's Pointe Outdoor Waterpark, Great Lawn, Family Playground, Lakeshore Drive Beach, Golf Course Renovation, Sunrise Park Road, and the new Senior Center. For business-type activities, major capital outlays included service on well #6, construction of shallow well #18, storm water improvements, odor control, water line extensions, and the construction of King's Pointe Resort and Indoor Waterpark.

Construction in progress at June 30, 2007 for governmental activities consists primarily of Project AWAYSIS. Construction in progress at June 30, 2007 for business-type activities consists of the odor control project and King's Pointe Resort and Indoor Waterpark.

### ***Long-Term Debt***

At June 30, 2007, the City had \$19,515,000 in total long-term debt outstanding for governmental activities. The City completed two GO Bond issues for Project AWAYSIS in fiscal year 2007, one for \$5,400,000 and one for \$2,945,000 with final maturities of June 1, 2026 and June 1, 2027, respectively. The \$5,400,000 issue has principal payments from \$90,000 to \$195,000 and has interest rates of 4% to 4.75%. The \$2,945,000 issue has principal payments from \$5,000 to \$100,000 and has interest rates of 5.45% to 5.65% with two balloon payments in the last two years of \$945,000 and \$1,215,000.

Total long-term debt outstanding for business-type activities was \$7,682,888 at June 30, 2007. The City issued two capital loan notes in fiscal year 2007, both from the State Revolving Fund with the Iowa Finance Authority. The Storm Water Revenue Capital Loan Notes were issued September 20, 2006 for a maximum of \$729,000 at a rate of 3% and a final maturity of June 1, 2026. The Sewer Revenue Capital Loan Notes were issued March 22, 2007 for a maximum of \$725,000 at a rate of 3% and a final maturity of June 1, 2027. The City had drawn \$1,048,660 on these notes as of June 30, 2007.

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. At June 30, 2007 the City was at 87% of its constitutional debt limit of \$16,840,462 with an outstanding balance of \$14,717,080.

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 2008 budget.

The residential rollback decreased for 2008 to 45.56% from 45.99% which has a negative effect on property tax revenue.

The State estimate for Road Use Tax revenue is projected to increase slightly from \$83.80 in 2007 to \$84.30 per capita in 2008.

The City Council adopted a new Storm Water Utility Ordinance and imposed a fee that began on July 1, 2006. The revenue from the utility will be used to fund future storm water projects and the administration expenses of the utility.

The final payment for the aerial fire truck was made in 2007, and the council approved the purchase of a new fire truck in 2008. The new fire truck will be paid from the debt service levy which will take the place of the existing levy for the aerial fire truck.

The tax levy rates per \$1,000 of taxable valuation for 2008 are provided below:

General levy	\$ 8.10000
Tort levy	.33377
Emergency levy	.27000
Debt service levy	1.39713
Special levy	<u>3.60390</u>
<b>Total</b>	<b><u>\$ 13.70480</u></b>

## 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 City Clerk, 620 Erie Street, City of Storm Lake, Iowa, by phone (712) 732-8000, or by email at [Justin@stormlake.org](mailto:Justin@stormlake.org).

## **Basic Financial Statements**

---

## Statement of Net Assets

At June 30, 2007

	Governmental Activities	Business- Type Activities	Total
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents .....	\$ 857,236	\$ 6,437,128	\$ 7,294,364
Investments .....	6,221,229	1,785,923	8,007,152
Receivables			
Property Taxes			
Current year delinquent, net of allowance for uncollectible taxes.....	24,287	—	24,287
Succeeding year .....	2,880,028	—	2,880,028
Tax Increment Financing			
Current year delinquent, net of allowance for uncollectible taxes.....	10,735	—	10,735
Succeeding year .....	129,584	—	129,584
Customer accounts, net of allowance for uncollectible accounts.....	—	568,235	568,235
Accounts .....	38,362	—	38,362
Accrued interest.....	125,779	47,226	173,005
Due from other governments.....	1,020,626	—	1,020,626
Inventories and prepaids .....	194,441	136,265	330,706
<b>Total Current Assets</b> .....	<b><u>11,502,307</u></b>	<b><u>8,974,777</u></b>	<b><u>20,477,084</u></b>
<b>Restricted Assets</b>			
Cash and cash equivalents .....	—	98,035	98,035
Investments .....	—	550,000	550,000
Pledges receivable, net of allowance for uncollectible pledges.....	656,518	—	656,518
<b>Total Restricted Assets</b> .....	<b><u>656,518</u></b>	<b><u>648,035</u></b>	<b><u>1,304,553</u></b>
<b>Noncurrent Assets</b>			
Loans fees, net of accumulated depreciation ..	—	81,663	81,663
Bond issue costs .....	127,715	—	127,715
Capital assets, net of accumulated depreciation .....	20,103,276	35,783,975	55,887,251
<b>Total Noncurrent Assets</b> .....	<b><u>20,230,991</u></b>	<b><u>35,865,638</u></b>	<b><u>56,096,629</u></b>
<b>Total Assets</b> .....	<b><u>\$ 32,389,816</u></b>	<b><u>\$ 45,488,450</u></b>	<b><u>\$ 77,878,266</u></b>

See accompanying notes to the financial statements.

	Governmental Activities	Business- Type Activities	Total
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable .....	\$ 1,190,182	\$ 3,121,972	\$ 4,312,154
Accrued interest payable .....	—	19,186	19,186
Accrued wages and benefits .....	174,313	24,223	198,536
Compensated absences.....	260,339	27,408	287,747
Other.....	46,346	—	46,346
Matured bonds payable .....	5,000	—	5,000
Matured interest payable .....	4,988	—	4,988
General obligation bonds payable .....	320,000	—	320,000
Payable From Restricted Assets			
Customer deposits .....	—	48,035	48,035
Revenue notes payable .....	—	359,000	359,000
Deferred Revenue			
Succeeding year property taxes .....	2,880,028	—	2,880,028
Succeeding year tax increment financing ....	129,584	—	129,584
<b>Total Current Liabilities</b> .....	<b><u>5,010,780</u></b>	<b><u>3,599,824</u></b>	<b><u>8,610,604</u></b>
<b>Long-Term Liabilities</b>			
Compensated absences.....	—	46,472	46,472
Revenue notes payable.....	—	7,323,888	7,323,888
General obligation bonds payable .....	19,195,000	—	19,195,000
<b>Total Long-Term Liabilities</b> .....	<b><u>19,195,000</u></b>	<b><u>7,370,360</u></b>	<b><u>26,565,360</u></b>
<b>Total Liabilities</b> .....	<b><u>24,205,780</u></b>	<b><u>10,970,184</u></b>	<b><u>35,175,964</u></b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt .	588,276	28,101,087	28,689,363
Restricted For			
Revenue note retirement .....	—	600,000	600,000
Debt service .....	23,960	—	23,960
Customer deposits .....	—	48,035	48,035
Unrestricted .....	7,571,800	5,769,144	13,340,944
<b>Total Net Assets</b> .....	<b><u>8,184,036</u></b>	<b><u>34,518,266</u></b>	<b><u>42,702,302</u></b>
<b>Total Liabilities and Net Assets</b> .....	<b><u>\$ 32,389,816</u></b>	<b><u>\$ 45,488,450</u></b>	<b><u>\$ 77,878,266</u></b>

# Statement of Activities

Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenue			Net (Expenses), Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
<b>Governmental Activities</b>							
Public safety .....	\$ 2,104,701	\$ 47,081	\$ 94,057	\$ —	\$ (1,963,563)	\$ —	\$ (1,963,563)
Public works .....	1,262,035	379,309	886,409	—	3,683	—	3,683
Health and social services.....	12,850	100,446	17,843	—	105,439	—	105,439
Culture and recreation.....	816,660	302,801	28,347	—	(485,512)	—	(485,512)
Community and economic development .....	351,232	—	—	—	(351,232)	—	(351,232)
General government.....	342,207	21,034	—	—	(321,173)	—	(321,173)
Capital projects.....	165,411	—	—	1,658,728	1,493,317	—	1,493,317
Interest on long-term debt .....	795,097	—	—	—	(795,097)	—	(795,097)
<b>Total Governmental Activities .....</b>	<b>5,850,193</b>	<b>850,671</b>	<b>1,026,656</b>	<b>1,658,728</b>	<b>(2,314,138)</b>	<b>—</b>	<b>(2,314,138)</b>
<b>Business-Type Activities</b>							
Water.....	2,526,039	2,244,656	—	—	—	(281,383)	(281,383)
Wastewater.....	1,649,064	1,433,757	—	—	—	(215,307)	(215,307)
Sanitation.....	360,987	355,774	—	—	—	(5,213)	(5,213)
Storm water .....	106,460	193,061	429,300	—	—	515,901	515,901
Lodge.....	807,870	10,694	5,656,217	—	—	4,859,041	4,859,041
<b>Total Business-Type Activities .....</b>	<b>5,450,420</b>	<b>4,237,942</b>	<b>6,085,517</b>	<b>—</b>	<b>—</b>	<b>4,873,039</b>	<b>4,873,039</b>
<b>Total.....</b>	<b>\$ 11,300,613</b>	<b>\$ 5,088,613</b>	<b>\$ 7,112,173</b>	<b>\$ 1,658,728</b>	<b>(2,314,138)</b>	<b>4,873,039</b>	<b>2,558,901</b>
<b>General Revenue</b>							
Property and Other City Tax Levied for							
General purposes.....					1,984,354	—	1,984,354
Local option sales tax.....					1,022,119	—	1,022,119
Employee benefits.....					716,274	—	716,274
Debt service .....					277,806	—	277,806
Tax increment financing taxes .....					83,873	—	83,873
Investment earnings .....					579,340	199,944	779,284
Miscellaneous.....					13,451	—	13,451
<b>Total General Revenue .....</b>					<b>4,677,217</b>	<b>199,944</b>	<b>4,877,161</b>
<b>Change in Net Assets Before Other Financing Sources (Uses) .....</b>					<b>2,363,079</b>	<b>5,072,983</b>	<b>7,436,062</b>
<b>Other Financing Sources (Uses)</b>							
Gain on sale of property .....					1,140,019	—	1,140,019
Transfers .....					(6,811,808)	6,811,808	—
<b>Total Other Financing Sources (Uses).....</b>					<b>(5,671,789)</b>	<b>6,811,808</b>	<b>1,140,019</b>
<b>Change in Net Assets.....</b>					<b>(3,308,710)</b>	<b>11,884,791</b>	<b>8,576,081</b>
Net Assets - Beginning of Year, as restated (Note 7).....					11,492,746	22,633,475	34,126,221
<b>Net Assets - End of Year.....</b>					<b>\$ 8,184,036</b>	<b>\$ 34,518,266</b>	<b>\$ 42,702,302</b>

See accompanying notes to the financial statements.

## Balance Sheet - Governmental Funds

At June 30, 2007

	General	Capital Projects	Other Nonmajor Governmental	Total
<b>Assets</b>				
Cash and cash equivalents .....	\$ 122,569	\$ 152,256	\$ 439,378	\$ 714,203
Investments .....	687,301	2,910,329	1,864,227	5,461,857
Receivables (net of allowance for uncollectible amounts)				
Property Taxes				
Current year delinquent.....	19,578	—	4,709	24,287
Succeeding year .....	1,699,367	—	1,180,661	2,880,028
Tax Increment Financing				
Delinquent .....	—	—	10,735	10,735
Succeeding year .....	—	—	129,584	129,584
Accounts .....	31,055	—	7,307	38,362
Accrued interest .....	13,896	58,840	37,690	110,426
Pledges .....	—	656,518	—	656,518
Due from other governments.....	26,694	740,937	252,995	1,020,626
Due from other funds.....	419,458	—	—	419,458
Inventories .....	58,162	—	1,213	59,375
Prepaid expenses.....	516	187	129,367	130,070
<b>Total Assets .....</b>	<b><u>\$ 3,078,596</u></b>	<b><u>\$ 4,519,067</u></b>	<b><u>\$ 4,057,866</u></b>	<b><u>\$ 11,655,529</u></b>
<b>Liabilities and Fund Balances</b>				
<b>Current Liabilities</b>				
Accounts payable .....	\$ 115,177	\$ 997,266	\$ 32,876	\$ 1,145,319
Salaries and benefits payable .....	69,296	3,100	32,152	104,548
Due to other funds.....	—	—	419,458	419,458
Matured bonds payable .....	—	—	5,000	5,000
Matured interest payable .....	—	—	4,988	4,988
Deferred Revenue				
Succeeding year property tax .....	1,699,367	—	1,180,661	2,880,028
Succeeding year tax increment financing.....	—	—	129,584	129,584
Other .....	—	620,085	46,347	666,432
<b>Total Liabilities .....</b>	<b><u>1,883,840</u></b>	<b><u>1,620,451</u></b>	<b><u>1,851,066</u></b>	<b><u>5,355,357</u></b>
<b>Fund Balances</b>				
Reserved for debt service.....	—	—	23,960	23,960
Unreserved				
Undesignated				
Reported in				
General fund .....	1,194,756	—	—	1,194,756
Special revenue funds.....	—	—	2,180,187	2,180,187
Capital projects fund .....	—	2,898,616	—	2,898,616
Permanent fund.....	—	—	2,653	2,653
<b>Total Fund Balances .....</b>	<b><u>1,194,756</u></b>	<b><u>2,898,616</u></b>	<b><u>2,206,800</u></b>	<b><u>6,300,172</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 3,078,596</u></b>	<b><u>\$ 4,519,067</u></b>	<b><u>\$ 4,057,866</u></b>	<b><u>\$ 11,655,529</u></b>

See accompanying notes to the financial statements.

## Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets

---

At June 30, 2007

<b>Total Fund Balances for Governmental Funds (Page 13)</b> .....	<b>\$ 6,300,172</b>
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. ....	20,103,276
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds.....	620,085
Bond issue costs are not available to pay current period expenditures, and therefore, are expensed in the funds. ....	127,715
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. ....	877,892
Long-term liabilities, including bonds payable, compensated absences and accrued interest are not due and payable in the current period and, therefore, are not reported as liabilities in the fund .....	<u>(19,845,104)</u>
<b>Net Assets of Governmental Activities (Page 11)</b> .....	<b><u>\$ 8,184,036</u></b>

# Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2007

	General	Capital Projects	Other Nonmajor Governmental	Total
<b>Revenue</b>				
Property tax .....	\$ 1,602,477	\$ —	\$ 1,067,146	\$ 2,669,623
Tax increment financing .....	—	—	83,873	83,873
Other tax .....	274,659	—	1,077,519	1,352,178
Licenses and permits .....	182,624	—	—	182,624
Use of money and property .....	267,021	413,366	79,423	759,810
Intergovernmental .....	33,179	1,555,934	974,652	2,563,765
Charges for services .....	487,579	—	—	487,579
Miscellaneous .....	60,418	513,485	54,608	628,511
<b>Total Revenue .....</b>	<b><u>2,907,957</u></b>	<b><u>2,482,785</u></b>	<b><u>3,337,221</u></b>	<b><u>8,727,963</u></b>
<b>Expenditures</b>				
Public safety .....	1,446,740	—	285,073	1,731,813
Public works .....	301,202	—	570,481	871,683
Health and social services .....	12,850	—	—	12,850
Culture and recreation .....	618,435	—	96,690	715,125
Community and economic development .....	203,123	—	148,109	351,232
General government .....	175,904	—	112,066	287,970
Debt service .....	—	—	1,207,354	1,207,354
Capital projects .....	—	7,596,287	—	7,596,287
<b>Total Expenditures .....</b>	<b><u>2,758,254</u></b>	<b><u>7,596,287</u></b>	<b><u>2,419,773</u></b>	<b><u>12,774,314</u></b>
<b>Excess (Deficiency) of Revenue Over (Under) Expenditures .....</b>	<b><u>149,703</u></b>	<b><u>(5,113,502)</u></b>	<b><u>917,448</u></b>	<b><u>(4,046,351)</u></b>
<b>Other Financing Sources (Uses)</b>				
Bond proceeds .....	—	8,345,000	—	8,345,000
Proceeds from sale of property .....	99,712	1,040,307	—	1,140,019
Operating transfers in .....	56,322	1,000,400	928,896	1,985,618
Operating transfers out .....	(16,436)	(7,294,855)	(1,691,134)	(9,002,425)
<b>Total Other Financing Sources (Uses) .....</b>	<b><u>139,598</u></b>	<b><u>3,090,852</u></b>	<b><u>(762,238)</u></b>	<b><u>2,468,212</u></b>
<b>Net Change in Fund Balances .....</b>	<b><u>289,301</u></b>	<b><u>(2,022,650)</u></b>	<b><u>155,210</u></b>	<b><u>(1,578,139)</u></b>
Fund Balances - Beginning of Year ..	<u>905,455</u>	<u>4,921,266</u>	<u>2,051,590</u>	<u>7,878,311</u>
<b>Fund Balances - End of Year .....</b>	<b><u>\$ 1,194,756</u></b>	<b><u>\$ 2,898,616</u></b>	<b><u>\$ 2,206,800</u></b>	<b><u>\$ 6,300,172</u></b>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2007

**Changes in Fund Balances - Total Governmental Funds (Page 15) \$ (1,578,139)**

***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 .....	\$ 7,303,161	
Depreciation expense .....	<u>(654,324)</u>	
Net Increase.....		6,648,837

Because some revenue will not be collected for several months after the City's year end, it is not considered available revenue and has been deferred in the governmental funds with the change from the prior year amounts, as follows:

Contributions .....		(493,444)
Property tax.....		(21,248)

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.....

(59,356)

Bond proceeds is an other financing source in the governmental funds, but the proceeds increase liabilities in the statement of net assets.....

(8,345,000)

Bond issue costs are capitalized and amortized on the statement of net assets but expensed in the governmental funds:

Bond issue cost.....	\$ 132,663	
Current year amortization.....	<u>(4,948)</u>	127,715

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.....

333,431

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 with the change from the prior year amounts, as follows:

Compensated absences .....	\$ (332)	
Interest on long-term debt.....	<u>78,826</u>	<u>78,494</u>

**Change in Net Assets of Governmental Activities (Page 13) \$ (3,308,710)**

# Statement of Net Assets - Proprietary Funds

At June 30, 2007

	Enterprise Funds				Total	Internal Service Funds
	Water	Wastewater	Lodge	Other Nonmajor Enterprise		
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents .....	\$ 1,806,121	\$ 519,310	\$ 3,402,595	\$ 709,102	\$ 6,437,128	\$ 143,033
Investments .....	110,779	916,465	566,498	192,181	1,785,923	759,372
Receivables						
Customer accounts and unbilled usage .....	313,626	207,016	—	47,593	568,235	—
Accrued interest.....	12,348	19,540	11,453	3,885	47,226	15,353
Inventories.....	30,782	2,738	13,432	300	47,252	4,997
Prepaid expenses.....	44,564	43,131	—	1,318	89,013	—
<b>Total Current Assets .....</b>	<b><u>2,318,220</u></b>	<b><u>1,708,200</u></b>	<b><u>3,993,978</u></b>	<b><u>954,379</u></b>	<b><u>8,974,777</u></b>	<b><u>922,755</u></b>
<b>Restricted Assets</b>						
Cash and cash equivalents .....	48,035	—	—	50,000	98,035	—
Investments .....	500,000	50,000	—	—	550,000	—
<b>Total Restricted Assets.....</b>	<b><u>548,035</u></b>	<b><u>50,000</u></b>	<b><u>—</u></b>	<b><u>50,000</u></b>	<b><u>648,035</u></b>	<b><u>—</u></b>
<b>Noncurrent Assets</b>						
Loans fees, net of accumulated amortization.....	63,438	7,250	—	10,975	81,663	—
Capital assets, net of accumulated depreciation.....	10,096,506	4,317,371	20,268,276	1,101,822	35,783,975	—
<b>Total Noncurrent Assets .....</b>	<b><u>10,159,944</u></b>	<b><u>4,324,621</u></b>	<b><u>20,268,276</u></b>	<b><u>1,112,797</u></b>	<b><u>35,865,638</u></b>	<b><u>—</u></b>
<b>Total Assets .....</b>	<b><u>\$ 13,026,199</u></b>	<b><u>\$ 6,082,821</u></b>	<b><u>\$ 24,262,254</u></b>	<b><u>\$ 2,117,176</u></b>	<b><u>\$ 45,488,450</u></b>	<b><u>\$ 922,755</u></b>
<b>Liabilities and Net Assets</b>						
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Accounts payable .....	\$ 9,863	\$ 68,521	\$ 2,977,822	\$ 65,766	\$ 3,121,972	\$ 4,425
Estimated claims incurred but not reported under self-insured health plan.....	—	—	—	—	—	40,438
Salaries and benefits payable .....	11,590	9,671	—	2,962	24,223	—
Accrued interest payable.....	16,593	801	—	1,792	19,186	—
Compensated absences.....	12,291	12,665	—	2,452	27,408	—
Payable From Restricted Assets						
Customer deposits.....	48,035	—	—	—	48,035	—
Revenue notes payable.....	305,000	27,000	—	27,000	359,000	—
<b>Total Current Liabilities.....</b>	<b><u>403,372</u></b>	<b><u>118,658</u></b>	<b><u>2,977,822</u></b>	<b><u>99,972</u></b>	<b><u>3,599,824</u></b>	<b><u>44,863</u></b>
<b>Long-Term Liabilities</b>						
Revenue notes payable.....	6,329,228	293,450	—	701,210	7,323,888	—
Compensated absences.....	22,826	19,810	—	3,836	46,472	—
<b>Total Long-Term Liabilities.....</b>	<b><u>6,352,054</u></b>	<b><u>313,260</u></b>	<b><u>—</u></b>	<b><u>705,046</u></b>	<b><u>7,370,360</u></b>	<b><u>—</u></b>
<b>Total Liabilities .....</b>	<b><u>6,755,426</u></b>	<b><u>431,918</u></b>	<b><u>2,977,822</u></b>	<b><u>805,018</u></b>	<b><u>10,970,184</u></b>	<b><u>44,863</u></b>
<b>Net Assets</b>						
Restricted for						
Revenue note repayment .....	500,000	50,000	—	50,000	600,000	—
Customer deposits.....	48,035	—	—	—	48,035	—
Unrestricted						
Designated for						
Water improvement .....	1,194,778	—	—	—	1,194,778	—
Wastewater improvements .....	—	847,819	—	—	847,819	—
Storm sewer improvements.....	—	—	—	492,953	492,953	—
Lodge construction .....	—	—	21,284,432	—	21,284,432	—
Undesignated .....	4,527,960	4,753,084	—	769,205	10,050,249	877,892
<b>Total Net Assets.....</b>	<b><u>6,270,773</u></b>	<b><u>5,650,903</u></b>	<b><u>21,284,432</u></b>	<b><u>1,312,158</u></b>	<b><u>34,518,266</u></b>	<b><u>877,892</u></b>
<b>Total Liabilities and Net Assets .....</b>	<b><u>\$ 13,026,199</u></b>	<b><u>\$ 6,082,821</u></b>	<b><u>\$ 24,262,254</u></b>	<b><u>\$ 2,117,176</u></b>	<b><u>\$ 45,488,450</u></b>	<b><u>\$ 922,755</u></b>

See accompanying notes to financial statements.

# Statement of Revenue, Expenses and Changes in Net Assets - Proprietary Funds

Year Ended June 30, 2007

	Enterprise Funds				Total	Internal Service Funds
	Water	Wastewater	Lodge	Other Nonmajor Enterprise		
<b>Operating Revenue</b>						
Charges for services.....	\$ 2,193,916	\$ 1,425,400	\$ 9,986	\$ 548,715	\$ 4,178,017	\$ 483,942
Miscellaneous.....	50,740	8,357	708	120	59,925	580
<b>Total Operating Revenue</b> .....	<b><u>2,244,656</u></b>	<b><u>1,433,757</u></b>	<b><u>10,694</u></b>	<b><u>548,835</u></b>	<b><u>4,237,942</u></b>	<b><u>484,522</u></b>
<b>Operating Expenses</b>						
Governmental Activities						
Public safety .....	—	—	—	—	—	288,341
Public works .....	—	—	—	—	—	76,929
Culture and recreation .....	—	—	—	—	—	59,513
Community and economic development .....	—	—	—	—	—	1,154
General government.....	—	—	—	—	—	21,452
Capital projects.....	—	—	—	—	—	11,534
Business-Type Activities						
Cost of sales and services.....	1,651,682	1,168,054	—	453,279	3,273,015	140,826
Depreciation and amortization.....	649,613	479,893	—	5,040	1,134,546	—
<b>Total Operating Expenses</b> .....	<b><u>2,301,295</u></b>	<b><u>1,647,947</u></b>	<b><u>—</u></b>	<b><u>458,319</u></b>	<b><u>4,407,561</u></b>	<b><u>599,749</u></b>
<b>Operating Income (Loss)</b> .....	<b><u>(56,639)</u></b>	<b><u>(214,190)</u></b>	<b><u>10,694</u></b>	<b><u>90,516</u></b>	<b><u>(169,619)</u></b>	<b><u>(115,227)</u></b>
<b>Nonoperating Income (Expenses)</b>						
Grant income .....	—	—	5,656,217	429,300	6,085,517	—
Interest income .....	90,443	66,635	11,454	31,412	199,944	55,871
Interest expense .....	(224,744)	(1,117)	—	(9,128)	(234,989)	—
Miscellaneous.....	—	—	(807,870)	—	(807,870)	—
<b>Total Nonoperating Income (Expenses)</b> .....	<b><u>(134,301)</u></b>	<b><u>65,518</u></b>	<b><u>4,859,801</u></b>	<b><u>451,584</u></b>	<b><u>5,242,602</u></b>	<b><u>55,871</u></b>
<b>Income (Loss) Before Contributions and Transfers</b> .....	<b><u>(190,940)</u></b>	<b><u>(148,672)</u></b>	<b><u>4,870,495</u></b>	<b><u>542,100</u></b>	<b><u>5,072,983</u></b>	<b><u>(59,356)</u></b>
Transfers in.....	225,502	—	7,294,856	—	7,520,358	30,943
Transfers out .....	(20,000)	(244,502)	(471,991)	(3,000)	(739,493)	—
<b>Change in Net Assets</b> .....	<b><u>14,562</u></b>	<b><u>(393,174)</u></b>	<b><u>11,693,360</u></b>	<b><u>539,100</u></b>	<b><u>11,853,848</u></b>	<b><u>(28,413)</u></b>
Net Assets - Beginning of Year, as restated (Note 7).....	6,256,211	6,044,077	9,591,072	773,058	22,664,418	906,305
<b>Net Assets - End of Year</b> .....	<b><u>\$ 6,270,773</u></b>	<b><u>\$ 5,650,903</u></b>	<b><u>\$ 21,284,432</u></b>	<b><u>\$ 1,312,158</u></b>	<b><u>\$ 34,518,266</u></b>	<b><u>\$ 877,892</u></b>

See accompanying notes to financial statements.

# Reconciliation of the Statement of Revenue, Expenses and Changes in Net Assets - Proprietary Funds to the Statement of Activities

Year Ended June 30, 2007

**Changes in Net Assets - Total Enterprise Funds (Page 18) ..... \$ 11,853,848**

***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 the 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.....

30,943

**Change in Net Assets - Business-Type Activities (Page 12)..... \$ 11,884,791**

# Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2007

	Enterprise Funds				Total	Internal Service Funds
	Water	Wastewater	Lodge	Other Nonmajor Enterprise		
<b>Cash Flows From Operating Activities</b>						
Receipts from customers.....	\$ 2,355,041	\$ 1,466,360	\$ 10,694	\$ 571,401	\$ 4,403,496	\$ —
Receipts from operating funds.....	—	—	—	—	—	484,522
Cash paid for personal services.....	(322,132)	(259,749)	—	(87,824)	(669,705)	—
Cash paid to suppliers.....	<u>(1,356,224)</u>	<u>(862,734)</u>	<u>2,879,883</u>	<u>(306,755)</u>	<u>354,170</u>	<u>(570,329)</u>
<b>Net Cash Provided by (Used in) Operating Activities.....</b>	<b><u>676,685</u></b>	<b><u>343,877</u></b>	<b><u>2,890,577</u></b>	<b><u>176,822</u></b>	<b><u>4,087,961</u></b>	<b><u>(85,807)</u></b>
<b>Cash Flows From Noncapital Financing Activities</b>						
Advances to other funds.....	(20,000)	(244,502)	(471,991)	(3,000)	(739,493)	—
Advances from other funds.....	—	225,503	7,294,856	—	7,520,359	30,943
<b>Net Cash Provided by (Used in) Noncapital Financing Activities.....</b>	<b><u>(20,000)</u></b>	<b><u>(18,999)</u></b>	<b><u>6,822,865</u></b>	<b><u>(3,000)</u></b>	<b><u>6,780,866</u></b>	<b><u>30,943</u></b>
<b>Cash Flows From Capital and Related Financing Activities</b>						
Acquisition of capital assets.....	(294,616)	(368,119)	(16,554,488)	(1,021,794)	(18,239,017)	—
Grant proceeds.....	—	—	6,626,545	429,300	7,055,845	—
Proceeds from revenue notes.....	305,000	320,450	—	728,210	1,353,660	—
Repayment of revenue notes.....	(601,000)	—	—	—	(601,000)	—
Interest payments.....	(225,239)	(316)	—	(10,254)	(235,809)	—
Nonoperating expenditures.....	—	—	(807,870)	—	(807,870)	—
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities.....</b>	<b><u>(815,855)</u></b>	<b><u>(47,985)</u></b>	<b><u>(10,735,813)</u></b>	<b><u>125,462</u></b>	<b><u>(11,474,191)</u></b>	<b><u>—</u></b>
<b>Cash Flows From Investing Activities</b>						
Proceeds from sale of investments.....	2,522,546	1,340,777	4,991,658	680,571	9,535,552	888,880
Purchase of investments.....	(610,779)	(966,465)	(566,498)	(192,181)	(2,335,923)	(759,372)
Interest on investments.....	101,559	63,008	—	35,605	200,172	50,744
<b>Net Cash Provided by Investing Activities.....</b>	<b><u>2,013,326</u></b>	<b><u>437,320</u></b>	<b><u>4,425,160</u></b>	<b><u>523,995</u></b>	<b><u>7,399,801</u></b>	<b><u>180,252</u></b>
<b>Net Increase in Cash and Cash Equivalents.....</b>	<b><u>1,854,156</u></b>	<b><u>714,213</u></b>	<b><u>3,402,789</u></b>	<b><u>823,279</u></b>	<b><u>6,794,437</u></b>	<b><u>125,388</u></b>
Cash and Cash Equivalents at Beginning of Year.....	—	(194,903)	(194)	(64,177)	(259,274)	17,645
<b>Cash and Cash Equivalents at End of Year.....</b>	<b><u>\$ 1,854,156</u></b>	<b><u>\$ 519,310</u></b>	<b><u>\$ 3,402,595</u></b>	<b><u>\$ 759,102</u></b>	<b><u>\$ 6,535,163</u></b>	<b><u>\$ 143,033</u></b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>						
Operating income (loss).....	\$ (56,639)	\$ (214,190)	\$ 10,694	\$ 90,516	\$ (169,619)	\$ (115,227)
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities						
Depreciation.....	645,863	479,893	—	4,515	1,130,271	—
Amortization.....	3,750	(7,250)	—	(10,975)	(14,475)	—
Decrease in accounts receivable and unbilled usage.....	107,785	32,603	—	22,566	162,954	—
(Increase) decrease in Inventories.....	1,204	(2,615)	(13,432)	1,075	(13,768)	—
(Increase) decrease in prepaid expenses.....	(3,981)	(5,030)	—	(61)	(9,072)	538
Increase (decrease) in accounts payable.....	(7,403)	68,445	2,893,315	65,302	3,019,659	4,425
Increase in salaries and benefits payable.....	1,133	1,538	—	2,159	4,830	—
Increase in incurred and unpaid claims.....	—	—	—	—	—	24,457
Increase in customer deposits.....	2,600	—	—	—	2,600	—
Increase (decrease) in compensated absences.....	(17,627)	(9,517)	—	1,725	(25,419)	—
<b>Net Cash Provided by (Used in) Operating Activities.....</b>	<b><u>\$ 676,685</u></b>	<b><u>\$ 343,877</u></b>	<b><u>\$ 2,890,577</u></b>	<b><u>\$ 176,822</u></b>	<b><u>\$ 4,087,961</u></b>	<b><u>\$ (85,807)</u></b>
<b>Reconciliation of Cash and Cash Equivalents to Specific Assets Included on the Statement of Net Assets - Proprietary Funds</b>						
Cash and cash equivalents.....	\$ 1,806,121	\$ 519,310	\$ 3,402,595	\$ 709,102	\$ 6,437,128	\$ 143,033
Restricted cash and cash equivalents.....	48,035	—	—	50,000	98,035	—
<b>Cash and Cash Equivalents at End of Year.....</b>	<b><u>\$ 1,854,156</u></b>	<b><u>\$ 519,310</u></b>	<b><u>\$ 3,402,595</u></b>	<b><u>\$ 759,102</u></b>	<b><u>\$ 6,535,163</u></b>	<b><u>\$ 143,033</u></b>

See accompanying notes to financial statements.

# Statement of Fiduciary Net Assets - Fiduciary Funds

At June 30, 2007

	<u>Pension Trust</u> Police/Fire	<u>Agency</u> Lake Improvement Commission
<b>Assets</b>		
Cash and cash equivalents .....	\$ 25,058	\$ 1,211,688
Investments .....	2,391	—
Interest receivable .....	48	—
Due from other governments.....	—	11,772
Prepaid expenses.....	<u>—</u>	<u>10,575</u>
<b>Total Assets .....</b>	<b><u>\$ 27,497</u></b>	<b><u>\$ 1,234,035</u></b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable .....	\$ —	\$ 25,974
Salaries and benefits payable .....	4,331	—
Due to other governments.....	<u>—</u>	<u>1,208,061</u>
<b>Total Liabilities.....</b>	<b><u>4,331</u></b>	<b><u>1,234,035</u></b>
<b>Net Assets</b>		
Reserved for pensions.....	<u>23,166</u>	<u>—</u>
<b>Total Liabilities and Net Assets .....</b>	<b><u>\$ 27,497</u></b>	<b><u>\$ 1,234,035</u></b>

# Statement of Changes in Fiduciary Net Assets - Fiduciary Funds —————

Year Ended June 30, 2007

	<u>Pension Trust</u> <u>Police/Fire</u>
<b>Additions</b>	
Use of money and property .....	\$ 48
Transfers from general fund .....	<u>205,000</u>
<b>Total Additions</b> .....	<b><u>205,048</u></b>
 <b>Deductions</b>	
Public safety .....	<u>192,086</u>
 <b>Change in Net Assets</b> .....	
Net Assets - Beginning of Year .....	<u>10,204</u>
 <b>Net Assets - End of Year</b> .....	 <b><u>\$ 23,166</u></b>

# Notes to the Financial Statements

---

## (1) Summary of Significant Accounting Policies

The 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 a Mayor-Council-Mayor form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer, storm water and landfill utilities for its citizens. The City is also constructing a full-service resort and waterpark.

The financial statements of the City of Storm Lake have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

### 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. The City of Storm Lake has no component units that need to be included in these financial statements.

### 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 City. 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 revenue, 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.

*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 two preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

## (1) Summary of Significant Accounting Policies

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

### ***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 other 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 revenue and other revenue that is not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid general operating expenses, the fixed charges and capital improvement costs not paid from other funds.

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

The City reports the following major proprietary funds:

### ***Enterprise***

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

The *Wastewater Fund* accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The *Lodge Fund* accounts 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 or services purchased by one department of the City and provided to other departments or agencies on a cost-reimbursement basis.

## **Description of Funds**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, equity, revenue and expenditures or expenses, and other financing sources and uses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into categories as follows:

## (1) Summary of Significant Accounting Policies

### **Governmental Fund Types**

*General fund* is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

*Special revenue funds* are used to account for proceeds of specific revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

*Debt service funds* are used to account for the accumulation of financial resources for, and the payment of, interest and principal on the City's general obligation debt and related costs.

*Capital projects funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund types, trust funds and special revenue funds).

### **Proprietary Fund Type**

*Enterprise funds* are used to account for operations (a) that are financed and operated in a manner similar to that of a private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

### **Fiduciary Fund Type**

*Pension trust funds* are used to account for funds set aside to fund pensions for retired employees.

*Agency funds* are used to account for assets held by the City for another entity.

## **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. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

# Notes to the Financial Statements

---

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

Property tax, local option sales tax, intergovernmental revenue (shared revenue, 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 revenue. 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 revenue.

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 revenue and expenses from nonoperating items. Operating revenue 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 revenue of the City's Enterprise Funds is 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 revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Agency funds report, under the accrual basis of accounting, any assets and liabilities. Since agency funds have no equity, they do not have a management focus.

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.

### **Budgets and Budgetary Accounting**

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except for agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Using prescribed procedures, the City amended its budget once during the year ended June 30, 2007.

The cash basis reports cash receipts and disbursements rather than revenue and expenditures/expenses. Receivables, payables, accruals and deferrals do not apply to the cash basis budget. The budgetary comparison and related disclosures are reported as required supplementary information.

# Notes to the Financial Statements

---

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

The City follows these procedures in the adoption of or amendment of the annual budget:

1. Department supervisors submit preliminary budget requests during October. These requests are reviewed by the City Administrator, City Clerk and City Finance Officer, who present a proposed budget to the City Council. The City Council approves a projected budget based on their recommendations.
2. The City Clerk provides the projected budget to interested citizens not later than February 20, and public hearings are conducted to obtain taxpayer comments.
3. Prior to March 15, the budget is legally enacted through passage of a resolution and is submitted to the County Auditor.
4. Amendments to the budget may be considered and reviewed throughout the fiscal year. Amendments are subject to council review and by justification to the City Administrator. The budget is formally amended by the City Council after the process of public hearings.

State law mandates that the control of the level of classification at which expenditures may not legally exceed appropriations is based upon ten major classes of disbursements, known as functions, not by fund or fund type. It is permissible, therefore, to overspend the budget within a particular fund so long as the expenditures within a function are not exceeded. The ten functions are Public Safety, Public Works, Health and Social Services, Culture and Recreation, Community and Economic Development, General Government, Debt Service, Capital Projects, Business-Type Activities and Nonprogram. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the debt service function. The City does not record or report encumbrances.

### **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, 2007 consist of cash in bank and temporary cash investments invested with original maturities of three months or less.

### **Receivables and Payables**

Property taxes receivable are recognized on the levy or lien date, which is the date that the tax asking is certified by the City to the County Board of Supervisors. Current year delinquent property taxes receivable represent unpaid taxes from the current year. The succeeding year property taxes receivable represent 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 taxes receivable have been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

# Notes to the Financial Statements

---

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

Property tax revenue became due and collectible in September and March of the 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, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in March, 2006.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services, including amounts owed for which billings have not been prepared.

Due from other governments represents amounts due from the State of Iowa, various shared revenue, grants and reimbursements from governments.

### **Inventories and Prepaids**

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. The cost of governmental fund-type inventory is recorded as an expenditure when purchased. Inventories and prepaids recorded in the governmental fund types do not reflect current appropriable resources; therefore, an equivalent portion of fund balance is reserved.

Prepaids consist primarily of property and liability insurance payments paid in advance.

### **Restricted Assets**

Certain assets of the governmental funds are classified as restricted assets because their use is restricted by bond covenants, donors, contract or grant agreements.

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

### **Interest Capitalized**

Construction period interest for business-type activities is capitalized. For projects paid for with taxable bonds, interest is capitalized at the amount of cash paid at the effective interest rate to the earlier of the date the asset is placed in service or year end. No amounts were capitalized in 2007.

### **Capital Assets**

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset useful lives are not capitalized. Capital assets are defined by the City as assets with an initial, individual cost in excess of \$5,000 and estimated useful lives in excess of two years.

# Notes to the Financial Statements

---

## (1) Summary of Significant Accounting Policies

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

<b>Asset Class</b>	<b>Estimated Useful Lives (In Years)</b>
Buildings and improvements .....	20 - 40 Years
Equipment and vehicles .....	5 - 20 Years
Infrastructure .....	20 Years

The City has not retroactively capitalized infrastructure assets. Under current accounting standards, the City is not required to retroactively complete the capitalization of infrastructure assets. However, infrastructure projects from 2004 through 2007 are included in the government-wide financial statements. Because the infrastructure assets constructed prior to 2004 have not been capitalized, the debt related to infrastructure assets causes the reporting of capital assets net of related debt in the statement of net assets to be lower than it would if the infrastructure were capitalized.

### Compensated Absences

City employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. For proprietary fund types, these accumulations are recorded as expenses and liabilities of the appropriate fund in the year earned. For governmental fund types, the amount of accumulated unpaid vacation and sick leave which is payable from available resources is recorded as a liability.

### Deferred Revenue

Although certain revenue is measurable, it is 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 property tax receivables and grants and cost sharing receivables not collected within 60 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 and other project-related amounts not received within 60 days after year end.

### Long-Term Liabilities

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities column in the statement of net assets and the proprietary fund type statement of net assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

# Notes to the Financial Statements

---

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

### **Fund Balance**

Reservations of fund balance represent amounts that are not appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

### **Estimates and Assumptions**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

## **(2) Cash and Investments**

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

On June 30, 2007, the City had investments in the Iowa Public Agency Investment Trust which were valued at an amortized cost of \$4,850,000 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

## Notes to the Financial Statements

### (2) Cash and Investments

The City's cash and investments at June 30, 2007 were as follows:

Cash on hand .....	\$ 400
Deposits on demand.....	3,672,942
Deposits with employee health benefit administration.....	17,644
Money market accounts .....	4,938,160
Time deposits .....	8,559,542
<b>Total</b> .....	<b><u>\$ 17,188,688</u></b>

### (3) Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2007 is as follows:

Due From/To	Interfund Receivables	Interfund Payables
General Fund.....	\$ 419,458	\$ —
Special Revenue Funds		
Tort insurance .....	—	121,245
Local option sales tax .....	—	32,970
Tax increment financing.....	—	24,838
Debt service.....	—	240,405
	<b><u>\$ 419,458</u></b>	<b><u>\$ 419,458</u></b>

These balances result from interfund advances made to finance projects. Repayments will be made as time deposits mature.

### (4) Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land .....	\$ 1,430,953	\$ —	\$ —	\$ 1,430,953
Construction in progress .....	<u>2,876,152</u>	<u>7,238,818</u>	<u>738,222</u>	<u>9,376,748</u>
Total Capital Assets Not Being ....				
Depreciated.....	<u>4,307,105</u>	<u>7,238,818</u>	<u>738,222</u>	<u>10,807,701</u>

## Notes to the Financial Statements

### (4) Capital Assets

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
<b>Capital Assets Being Depreciated</b>				
Buildings.....	\$ 5,102,199	\$ 731,118	\$ —	\$ 5,833,317
Improvements other than buildings ....	4,534,674	4,343	—	4,539,017
Equipment and vehicles.....	3,846,943	36,235	—	3,883,178
Infrastructure, road network .....	<u>2,230,219</u>	<u>30,869</u>	<u>—</u>	<u>2,261,088</u>
Total Capital Assets Being Depreciated.....	<u>15,714,035</u>	<u>802,565</u>	<u>—</u>	<u>16,516,600</u>
<b>Less Accumulated Depreciation for</b>				
Buildings.....	2,053,288	184,712	—	2,238,000
Improvements other than buildings ....	2,504,701	109,987	—	2,614,688
Equipment and vehicles.....	1,875,192	245,527	—	2,120,719
Infrastructure, road network .....	<u>133,520</u>	<u>114,098</u>	<u>—</u>	<u>247,618</u>
Total Accumulated Depreciation ..	<u>6,566,701</u>	<u>654,324</u>	<u>—</u>	<u>7,221,025</u>
Net Capital Assets Being Depreciated ...	<u>9,147,334</u>	<u>148,241</u>	<u>—</u>	<u>9,295,575</u>
<b>Net Governmental Activities Capital Assets .....</b>	<b><u>\$ 13,454,439</u></b>	<b><u>\$ 7,387,059</u></b>	<b><u>\$ 738,222</u></b>	<b><u>\$ 20,103,276</u></b>
<b>Business-Type Activities</b>				
<b>Capital Assets Not Being Depreciated</b>				
Land .....	\$ 8,000	\$ 1,200	\$ —	\$ 9,200
Construction in progress .....	<u>3,789,760</u>	<u>17,793,727</u>	<u>20,000</u>	<u>21,563,487</u>
Total Capital Assets Not Being Depreciated.....	<u>3,797,760</u>	<u>17,794,927</u>	<u>20,000</u>	<u>21,572,687</u>
<b>Capital Assets Being Depreciated</b>				
Buildings and improvements.....	9,423,656	340,012	—	9,763,668
Equipment and vehicles.....	605,834	—	—	605,834
Infrastructure, water and sewer network.....	<u>19,799,985</u>	<u>388,118</u>	<u>340,012</u>	<u>19,848,091</u>
Total Capital Assets Being Depreciated.....	<u>29,829,475</u>	<u>728,130</u>	<u>340,012</u>	<u>30,217,593</u>
<b>Less Accumulated Depreciation for</b>				
Buildings.....	7,199,953	307,765	—	7,507,718
Equipment and vehicles.....	331,280	18,925	—	350,205
Infrastructure, water and sewer network.....	<u>7,344,801</u>	<u>803,581</u>	<u>—</u>	<u>8,148,382</u>
Total Accumulated Depreciation ..	<u>14,876,034</u>	<u>1,130,271</u>	<u>—</u>	<u>16,006,305</u>
Net Capital Assets Being Depreciated ...	<u>14,953,441</u>	<u>(402,141)</u>	<u>340,012</u>	<u>14,211,288</u>
<b>Net Business-Type Activities Capital Assets .....</b>	<b><u>\$ 18,751,201</u></b>	<b><u>\$ 17,392,786</u></b>	<b><u>\$ 360,012</u></b>	<b><u>\$ 35,783,975</u></b>

## Notes to the Financial Statements

### (4) Capital Assets

Depreciation expense was charged by the City as follows for the year ended June 30, 2007:

<b>Governmental Activities</b>		
Public safety .....		\$ 108,200
Public works .....		390,352
Culture and recreation .....		101,535
General government.....		54,237
<b>Total Governmental Activities Depreciation Expense .....</b>		<b><u>\$ 654,324</u></b>
<b>Business-Type Activities</b>		
Water .....		\$ 645,863
Wastewater.....		479,893
Storm sewer .....		4,284
Landfill .....		231
<b>Total Business-Type Activities Depreciation Expense .....</b>		<b><u>\$ 1,130,271</u></b>

### (5) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<b>Transfer To</b>	<b>Transfer From</b>	<b>Amount</b>
General	Special Revenue	
	Emergency	<u>\$ 56,322</u>
Debt Service	General	16,436
	Special Revenue	
	Local Option Sales Tax	360,485
	Tax Increment Financing	79,984
	Enterprise	
	Lodge	<u>471,991</u>
		<u>928,896</u>
Capital Projects	Special Revenue	
	Road Use	501,400
	Local Option Sales Tax	307,000
	Tax Increment Financing	150,000
	Enterprise	
	Water	20,000
	Wastewater	19,000
Landfill	<u>3,000</u>	
		<u>1,000,400</u>
Enterprise Lodge Water	Capital Projects	<u>7,294,855</u>
	Enterprise Wastewater	<u>225,502</u>
Internal Service	Special Revenue	
	Special Levy	<u>30,943</u>
Fiduciary Police/Fire Pension Trust	Special Revenue	
	Special Levy	<u>205,000</u>
<b>Total</b>		<b><u>\$ 9,741,918</u></b>

## Notes to the Financial Statements

### (6) Long-Term Debt

The following is a summary of the changes in long-term debt for the year ended June 30, 2007:

	Balance - Beginning of Year	Additions	Retirements	Balance - End of Year	Amount Due in the Next Year	Range of Interest Rates
<b>Governmental Activities</b>						
General obligation bonds	\$ 11,503,431	\$ 8,345,000	\$ 333,431	\$ 19,515,000	\$ 320,000	3.75 - 5.75%
Compensated absences ..	260,007	260,339	260,007	260,339	260,339	N/A
<b>Totals.....</b>	<b>\$ 11,763,438</b>	<b>\$ 8,605,339</b>	<b>\$ 593,438</b>	<b>\$ 19,775,339</b>	<b>\$ 580,339</b>	
<b>Business-Type Activities</b>						
Revenue notes.....	\$ 6,930,228	\$ 1,048,660	\$ 296,000	\$ 7,682,888	\$ 359,000	3.00%
Compensated absences ..	102,217	73,880	102,217	73,880	27,408	N/A
<b>Totals.....</b>	<b>\$ 7,032,445</b>	<b>\$ 1,122,540</b>	<b>\$ 398,217</b>	<b>\$ 7,756,768</b>	<b>\$ 386,408</b>	

#### Governmental Activities

##### **General Obligation Bonds**

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. In addition, general obligation bonds have been issued to refund prior general obligation bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as serial bonds with substantially equal amounts of principal plus interest maturing each year. Certain general obligation bond debt service is subject to annual appropriation by the City Council. In accordance with the Code of Iowa, only that portion subject to the annual appropriation by the City Council is included in the computation of the statutory debt limit.

#### Business-Type Activities

##### **Revenue Bonds**

The City issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service.

Annual debt service requirements to maturity for general obligation bonds and revenue bonds at June 30, 2007 are as follows:

Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>General Obligation Bonds</u>		<u>Revenue Bonds</u>		<u>Principal</u>	<u>Interest</u>
	Principal	Interest	Principal	Interest		
2008.....	\$ 320,000	\$ 778,646	\$ 359,000	\$ 240,474	\$ 679,000	\$ 1,019,120
2009.....	365,000	765,420	370,000	228,995	735,000	994,415
2010.....	390,000	750,408	382,000	217,170	772,000	967,578
2011.....	585,000	734,246	393,000	204,967	978,000	939,213
2012.....	590,000	712,328	404,000	192,416	994,000	904,744
2013-2017 ..	3,870,000	3,175,458	2,207,000	760,311	6,077,000	3,935,769
2018-2022 ..	5,170,000	2,333,803	2,381,450	398,049	7,551,450	2,731,852
2023-2027 ..	8,225,000	1,083,224	1,186,438	64,320	9,411,438	1,147,544
	19,515,000	10,333,533	7,682,888	2,306,702	27,197,888	12,640,235
Net unamor- tized bond discount ...	127,715	—	81,663	—	209,378	—
<b>Net</b>	<b>\$ 19,387,285</b>	<b>\$ 10,333,533</b>	<b>\$ 7,601,225</b>	<b>\$ 2,306,702</b>	<b>\$ 26,988,510</b>	<b>\$ 12,640,235</b>

## Notes to the Financial Statements

### (6) Long-Term Debt

Interest expense recorded in governmental fund types totaled \$873,923 for the year ended June 30, 2007. Interest expense recorded in proprietary fund types totaled \$234,989.

### Revenue Bond Resolution Requirements

The business-type activities revenue bond resolutions contain significant limitations and restrictions on annual debt service requirements, require minimum amounts to be maintained in various restricted accounts to provide for payment of principal and interest and require minimum revenue bond coverage. At June 30, 2007, the City was in compliance with these covenants.

### (7) Restatement of Beginning Balances

The previous audited financial statements did not include receivables for unbilled revenue in the Water and Wastewater funds for the year ended June 30, 2006. In addition, on the June 30, 2006 statement of net assets, the City deferred all of revenue from the pledges receivable on the AWAYSIS project. These pledges are estimated to be collectible and should have been recognized as income as of June 30, 2006. The effects of these changes are as follows:

	Water Fund	Wastewater Fund	Net Assets - Governmental Activities	Net Assets - Business- Type Activities
Balance, June 30, 2006, as originally reported .....	\$ 6,103,243	\$ 5,971,884	\$ 10,141,133	\$ 22,871,559
Unrecorded unbilled revenue as of June 30, 2006.....	152,968	72,193	—	—
Pledges receivable previously deferred as of June 30, 2006.....	—	—	1,113,529	—
Net assets transferred from internal service fund .....	—	—	238,084	(238,084)
<b>Beginning Balance, as Restated ...</b>	<b><u>\$ 6,256,211</u></b>	<b><u>\$ 6,044,077</u></b>	<b><u>\$ 11,492,746</u></b>	<b><u>\$ 22,633,475</u></b>

### (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 year ended June 30, 2007 this fee totaled \$312,356.

## Notes to the Financial Statements

---

### **(8) Jointly Governed Organizations**

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 subdivision 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.

### **(9) Pension and Retirement Benefits**

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, disability 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, 7155 Lake Drive, West Des Moines, Iowa 50263.

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 contributions to the Plan for the years ended June 30, 2007, 2006 and 2005 were \$192,085, \$190,790 and \$161,851, respectively, equal to the required 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 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 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, 2007, 2006 and 2005 were \$86,730, \$87,548 and \$76,903, respectively, equal to the required contributions for each year.

## Notes to the Financial Statements

---

### (9) Pension and Retirement Benefits

#### 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, 2007 totaled \$13,964.

### (10) Construction Contracts and Commitments

The City has entered into the following contracts which were not complete as of June 30, 2007:

	<b>Total Project</b>	<b>Portion Completed</b>	<b>Remaining Commitment</b>
AWAYSIS Engineering.....	\$ 2,059,822	\$ 1,951,538	\$ 108,284
AWAYSIS Aquatic Center .....	6,404,096	6,229,060	175,036
AWAYSIS Construction.....	15,000,016	14,993,699	6,317
AWAYSIS low voltage cabling.....	113,343	100,596	12,747
Lighthouse project .....	1,177,000	—	1,177,000
Senior Center renovation.....	247,653	230,924	16,729
Storm Lake marina .....	217,674	—	217,674
Beach playground and lawn .....	1,491,426	886,814	604,612
Lodge furniture .....	845,031	—	845,031
Sanitary sewer - odor control.....	528,423	243,346	285,077
	<u><b>\$ 28,084,484</b></u>	<u><b>\$ 24,635,977</b></u>	<u><b>\$ 3,448,507</b></u>

### (11) Commitments

The City has entered into an agreement for the operation and maintenance of the City's wastewater treatment facilities through June, 2013, with the fee to be negotiated yearly. The fee for the year ending June 30, 2008 is \$56,366 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 year ending June 30, 2008 is \$64,987 per month.

The City has entered into an agreement for the management of the airport for the year ending June 30, 2008 for \$2,757 per month.

The City has entered into an agreement to purchase a fire truck for approximately \$300,000.

## Notes to the Financial Statements

---

### (11) Commitments

The City has entered into an agreement for the operation and maintenance of the City's King's Pointe Waterpark Resort facility through August 29, 2012, with the base management fee to be negotiated yearly. The base management fee for the year ending June 30, 2008 is \$8,500 per month with an additional incentive management fee of 1.5% of gross receipts for the first two full fiscal years. Thereafter, the incentive management fee shall be equal to the first \$25,000 of net available cash for said fiscal year, plus 25% of the net available cash over and above \$25,000 for said fiscal year.

The City has entered into an agreement for the operation and maintenance of the City's Outdoor Waterpark facility through June 21, 2012, with the base management fee to be negotiated yearly. The base management fee for the year ending June 30, 2008 is \$4,000 each month for five months of operation (May, June, July, August and September).

### (12) 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, 2006 to December 31, 2006. The study included census of covered members as of December 31, 2006, a summary of aggregate and specific excess loss reinsurance coverage, monthly claim expense information, a summary of revenue and expenses and review of the plan document summary description.

Following is a financial analysis of the plan for the year ended June 30, 2007. Included in this analysis is an estimate of the amount needed at the end of the plan year for incurred but not paid claims.

Net assets - July 1, 2006 .....	\$ 414,749
Contributions received.....	375,460
Interest earned .....	33,096
Other sources of revenue .....	982
Transfers in.....	30,943
	<u>855,230</u>
Claims paid.....	318,026
Aggregate stop-loss premiums and other charges.....	139,623
	<u>457,649</u>
Net assets - June 30, 2007.....	397,581
Reserved for estimated incurred but unpaid claims .....	40,438
<b>Unreserved Funds .....</b>	<b><u>\$ 357,143</u></b>

## Notes to the Financial Statements

---

### (13) 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.

### (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 revenue 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:

<b>Obligation</b>	<b>Originally Issued</b>	<b>Date of Issue</b>	<b>Balance Outstanding June 30, 2007</b>
Higher Education Facilities Revenue Bonds .....	\$7,630,000	5-24-00	\$ 5,550,000
Elderly Housing Revenue Bonds.....	4,565,000	6-1-07	4,565,000
Elderly Housing Revenue Bonds.....	5,325,000	10-1-03	<u>5,005,000</u>
			<b><u>\$ 15,120,000</u></b>

**Required Supplementary Information** 

---

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

Year Ended June 30, 2007

	Governmental Funds - Actual	Proprietary Funds - Actual	Less Fund Not Required to be Budgeted	Net	Budgeted Amounts		Final to Net
					Original	Final	
<b>Receipts</b>							
Property taxes .....	\$ 2,667,223	\$ —	\$ —	\$ 2,667,223	\$ 2,667,597	\$ 2,667,597	\$ (374)
Tax increment financing collections.....	83,973	—	—	83,973	89,090	89,090	(5,117)
Other city taxes.....	1,320,558	—	—	1,320,558	1,057,084	1,212,084	108,474
Licenses and permits.....	169,090	—	—	169,090	129,600	129,600	39,490
Use of money and property .....	537,201	200,174	45,997	691,378	706,730	706,730	(15,352)
Intergovernmental.....	1,959,393	7,369,045	—	9,328,438	9,375,249	9,375,249	(46,811)
Charges for services.....	725,759	4,351,585	483,943	4,593,401	5,685,762	5,685,762	(1,092,361)
Miscellaneous.....	710,481	137,639	580	847,540	1,726,086	1,726,086	(878,546)
<b>Total Receipts .....</b>	<b>8,173,678</b>	<b>12,058,443</b>	<b>530,520</b>	<b>19,701,601</b>	<b>21,437,198</b>	<b>21,592,198</b>	<b>(1,890,597)</b>
<b>Disbursements</b>							
Public safety .....	1,723,254	—	—	1,723,254	1,975,168	1,985,168	261,914
Public works .....	866,897	—	—	866,897	817,701	917,701	50,804
Health and social services.....	12,850	—	—	12,850	15,700	15,700	2,850
Culture and recreation.....	718,061	—	—	718,061	884,152	904,152	186,091
Community and economic development .....	348,119	—	—	348,119	399,740	399,740	51,621
General government.....	319,908	—	—	319,908	322,629	347,629	27,721
Debt service.....	1,207,354	—	—	1,207,354	777,028	777,028	(430,326)
Capital projects.....	8,721,525	—	—	8,721,525	12,388,426	12,388,426	3,666,901
Business-type activities .....	—	20,111,724	570,006	19,541,718	21,500,897	21,500,897	1,959,179
<b>Total Disbursements .....</b>	<b>13,917,968</b>	<b>20,111,724</b>	<b>570,006</b>	<b>33,459,686</b>	<b>39,081,441</b>	<b>39,236,441</b>	<b>5,776,755</b>
<b>Receipts Over (Under) Disbursements.....</b>	<b>(5,744,290)</b>	<b>(8,053,281)</b>	<b>(39,486)</b>	<b>(13,758,085)</b>	<b>(17,644,243)</b>	<b>(17,644,243)</b>	<b>3,886,158</b>
<b>Other Financing Sources, Net .....</b>	<b>3,765,486</b>	<b>5,980,900</b>	<b>30,943</b>	<b>9,715,443</b>	<b>6,936,200</b>	<b>6,936,200</b>	<b>2,779,243</b>
<b>Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses</b>	<b>(1,978,804)</b>	<b>(2,072,381)</b>	<b>(8,543)</b>	<b>(4,042,642)</b>	<b>(10,708,043)</b>	<b>(10,708,043)</b>	<b>6,665,401</b>
Balances - Beginning of Year .....	7,457,481	10,182,804	906,525	16,733,760	17,255,577	17,255,577	(521,817)
<b>Balances - End of Year.....</b>	<b>\$ 5,478,677</b>	<b>\$ 8,110,423</b>	<b>\$ 897,982</b>	<b>\$ 12,691,118</b>	<b>\$ 6,547,534</b>	<b>\$ 6,547,534</b>	<b>\$ 6,143,584</b>

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except for agency 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 ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities and nonprogram. 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, one budget amendment increased budgeted disbursements by \$155,000 and budgeted receipts by \$155,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the debt service function.

# Schedule of Budgetary Comparison - Budget to GAAP Reconciliation ▬

Year Ended June 30, 2007

	<b>Governmental Fund Types</b>		
	<b>Cash Basis</b>	<b>Accrual Adjustments</b>	<b>GAAP Basis</b>
Revenue .....	\$ 8,173,678	\$ 554,285	\$ 8,727,963
Expenditures.....	<u>13,917,968</u>	<u>(1,143,654)</u>	<u>12,774,314</u>
Net .....	(5,744,290)	1,697,939	(4,046,351)
Other financing sources (uses).....	3,765,486	(1,297,274)	2,468,212
Beginning fund balances .....	<u>7,457,481</u>	<u>420,830</u>	<u>7,878,311</u>
<b>Ending Fund Balances.....</b>	<b><u>\$ 5,478,677</u></b>	<b><u>\$ 821,495</u></b>	<b><u>\$ 6,300,172</u></b>

	<b>Proprietary Fund Types</b>		
	<b>Cash Basis</b>	<b>Accrual Adjustments</b>	<b>GAAP Basis</b>
Revenue .....	\$ 12,058,443	\$ (994,647)	\$ 11,063,796
Expenditures.....	<u>20,111,724</u>	<u>(14,061,555)</u>	<u>6,050,169</u>
Net .....	(8,053,281)	13,066,908	5,013,627
Other financing sources (uses).....	5,980,900	830,908	6,811,808
Beginning fund balances (as restated) .....	<u>10,182,804</u>	<u>13,387,919</u>	<u>23,570,723</u>
<b>Ending Fund Balances.....</b>	<b><u>\$ 8,110,423</u></b>	<b><u>\$ 27,285,735</u></b>	<b><u>\$ 35,396,158</u></b>

**Other Supplementary Information** 

**Combining Balance Sheet Schedule - Nonmajor Governmental Funds**

At June 30, 2007

	Special Revenue											Perm- anent Emma Myers Trust	Total	
	Road Use	Special Levy	Local Option Sales Tax	Tort Insurance	Emer- gency Levy	Tax Increment Financing	Crime Prevention	Library Special Revenue	Dredging	Expend- able Gift Special Revenue	Law Enforce- ment			Debt Service
<b>Assets</b>														
Cash and cash equivalents .....	\$ 233,623	\$ 109,846	\$ —	\$ —	\$ —	\$ —	\$ 11,056	\$ 51,151	\$ 457	\$ 19,652	\$ 10,940	\$ —	\$ 2,653	\$ 439,378
Investments .....	1,349	—	965,659	518,847	—	42,843	15,929	51,228	—	—	2,583	265,789	—	1,864,227
Receivables														
Property Taxes														
Current year delinquent.....	—	—	—	868	651	—	—	—	—	—	—	3,190	—	4,709
Succeeding year .....	—	755,822	—	70,000	56,625	—	—	—	—	—	—	298,214	—	1,180,661
Tax Increment Financing														
Current year delinquent.....	—	8,287	—	—	—	2,448	—	—	—	—	—	—	—	10,735
Succeeding year .....	—	—	—	—	—	129,584	—	—	—	—	—	—	—	129,584
Accounts .....	—	7,307	—	—	—	—	—	—	—	—	—	—	—	7,307
Accrued interest .....	—	—	19,523	10,517	—	866	322	1,036	—	—	52	5,374	—	37,690
Due from other governments.....	69,031	—	183,964	—	—	—	—	—	—	—	—	—	—	252,995
Inventories .....	1,213	—	—	—	—	—	—	—	—	—	—	—	—	1,213
Prepaid items.....	—	56,368	—	66,978	—	—	—	—	6,021	—	—	—	—	129,367
<b>Total Assets .....</b>	<b>\$ 305,216</b>	<b>\$ 937,630</b>	<b>\$ 1,169,146</b>	<b>\$ 667,210</b>	<b>\$ 57,276</b>	<b>\$ 175,741</b>	<b>\$ 27,307</b>	<b>\$ 103,415</b>	<b>\$ 6,478</b>	<b>\$ 19,652</b>	<b>\$ 13,575</b>	<b>\$ 572,567</b>	<b>\$ 2,653</b>	<b>\$ 4,057,866</b>
<b>Liabilities and Fund Balances</b>														
<b>Liabilities</b>														
Accounts payable .....	\$ 11,013	\$ 5,169	\$ —	\$ 85	\$ —	\$ —	\$ 36	\$ 3,591	\$ 457	\$ 12,000	\$ 525	\$ —	\$ —	\$ 32,876
Salaries and benefits payable .....	20,606	6,432	—	—	—	—	—	—	5,114	—	—	—	—	32,152
Due to other funds .....	—	—	32,970	121,245	—	24,838	—	—	—	—	—	240,405	—	419,458
Matured bonds payable.....	—	—	—	—	—	—	—	—	—	—	—	5,000	—	5,000
Matured interest payable.....	—	—	—	—	—	—	—	—	—	—	—	4,988	—	4,988
Deferred Revenue														
Succeeding year property taxes..	—	755,822	—	70,000	56,625	—	—	—	—	—	—	298,214	—	1,180,661
Succeeding year tax increment financing.....	—	—	—	—	—	129,584	—	—	—	—	—	—	—	129,584
Other .....	—	—	46,347	—	—	—	—	—	—	—	—	—	—	46,347
<b>Total Liabilities .....</b>	<b>31,619</b>	<b>767,423</b>	<b>79,317</b>	<b>191,330</b>	<b>56,625</b>	<b>154,422</b>	<b>36</b>	<b>3,591</b>	<b>5,571</b>	<b>12,000</b>	<b>525</b>	<b>548,607</b>	<b>—</b>	<b>1,851,066</b>
<b>Fund Balances</b>														
Unreserved														
Debt service .....	—	—	—	—	—	—	—	—	—	—	—	23,960	—	23,960
Special revenue funds.....	273,597	170,207	1,089,829	475,880	651	21,319	27,271	99,824	907	7,652	13,050	—	—	2,180,187
Permanent fund.....	—	—	—	—	—	—	—	—	—	—	—	—	2,653	2,653
<b>Total Fund Balances .....</b>	<b>273,597</b>	<b>170,207</b>	<b>1,089,829</b>	<b>475,880</b>	<b>651</b>	<b>21,319</b>	<b>27,271</b>	<b>99,824</b>	<b>907</b>	<b>7,652</b>	<b>13,050</b>	<b>23,960</b>	<b>2,653</b>	<b>2,206,800</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 305,216</b>	<b>\$ 937,630</b>	<b>\$ 1,169,146</b>	<b>\$ 667,210</b>	<b>\$ 57,276</b>	<b>\$ 175,741</b>	<b>\$ 27,307</b>	<b>\$ 103,415</b>	<b>\$ 6,478</b>	<b>\$ 19,652</b>	<b>\$ 13,575</b>	<b>\$ 572,567</b>	<b>\$ 2,653</b>	<b>\$ 4,057,866</b>

**Combining Schedule of Revenue, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds**

Year Ended June 30, 2007

	Special Revenue											Perm- anent Emma Myers Trust	Total	
	Road Use	Special Levy	Local Option Sales Tax	Tort Insurance	Emer- gency Levy	Tax Increment Financing	Crime Prevention	Library Special Revenue	Dredging	Expend- able Gift Special Revenue	Law Enforce- ment			Debt Service
<b>Revenue</b>														
Property tax .....	\$ —	\$ 679,087	\$ —	\$ 71,164	\$ 53,405	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 263,490	\$ —	\$ 1,067,146
Tax increment financing collections .....	—	—	—	—	—	83,873	—	—	—	—	—	—	—	83,873
Other city tax .....	—	37,187	1,022,119	3,897	—	—	—	—	—	—	—	14,316	—	1,077,519
Use of money and property .....	—	—	48,694	10,517	2,924	866	1,285	8,026	—	—	518	6,569	24	79,423
Intergovernmental.....	843,563	—	—	—	—	—	—	4,714	126,375	—	—	—	—	974,652
Miscellaneous.....	20,897	230	—	5,358	—	—	5,147	4,301	—	7,862	10,813	—	—	54,608
<b>Total Revenue.....</b>	<b>864,460</b>	<b>716,504</b>	<b>1,070,813</b>	<b>90,936</b>	<b>56,329</b>	<b>84,739</b>	<b>6,432</b>	<b>17,041</b>	<b>126,375</b>	<b>7,862</b>	<b>11,331</b>	<b>284,375</b>	<b>24</b>	<b>3,337,221</b>
<b>Expenditures</b>														
Public safety .....	—	274,561	—	—	—	—	3,281	—	—	—	7,231	—	—	285,073
Public works .....	473,407	97,074	—	—	—	—	—	—	—	—	—	—	—	570,481
Culture and recreation.....	—	85,986	—	—	—	—	—	10,679	—	—	—	—	25	96,690
Community and economic development.....	—	—	—	—	—	—	—	—	136,109	12,000	—	—	—	148,109
General government.....	—	20,549	—	91,517	—	—	—	—	—	—	—	—	—	112,066
Debt service.....	—	—	—	—	—	—	—	—	—	—	—	1,207,354	—	1,207,354
<b>Total Expenditures.....</b>	<b>473,407</b>	<b>478,170</b>	<b>—</b>	<b>91,517</b>	<b>—</b>	<b>—</b>	<b>3,281</b>	<b>10,679</b>	<b>136,109</b>	<b>12,000</b>	<b>7,231</b>	<b>1,207,354</b>	<b>25</b>	<b>2,419,773</b>
<b>Revenue Over (Under)</b>														
<b>Expenditures .....</b>	<b>391,053</b>	<b>238,334</b>	<b>1,070,813</b>	<b>(581)</b>	<b>56,329</b>	<b>84,739</b>	<b>3,151</b>	<b>6,362</b>	<b>(9,734)</b>	<b>(4,138)</b>	<b>4,100</b>	<b>(922,979)</b>	<b>(1)</b>	<b>917,448</b>
<b>Other Financing Sources (Uses)</b>														
Transfers in.....	—	—	—	—	—	—	—	—	—	—	—	928,896	—	928,896
Transfers out .....	(501,400)	(235,943)	(667,485)	—	(56,322)	(229,984)	—	—	—	—	—	—	—	(1,691,134)
<b>Total Other Financing Sources (Uses).....</b>	<b>(501,400)</b>	<b>(235,943)</b>	<b>(667,485)</b>	<b>—</b>	<b>(56,322)</b>	<b>(229,984)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>928,896</b>	<b>—</b>	<b>(762,238)</b>
<b>Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses.....</b>	<b>(110,347)</b>	<b>2,391</b>	<b>403,328</b>	<b>(581)</b>	<b>7</b>	<b>(145,245)</b>	<b>3,151</b>	<b>6,362</b>	<b>(9,734)</b>	<b>(4,138)</b>	<b>4,100</b>	<b>5,917</b>	<b>(1)</b>	<b>155,210</b>
Fund Balance - Beginning of Year...	383,944	167,816	686,501	476,461	644	166,564	24,120	93,462	10,641	11,790	8,950	18,043	2,654	2,051,590
<b>Fund Balance - End of Year.....</b>	<b>\$ 273,597</b>	<b>\$ 170,207</b>	<b>\$ 1,089,829</b>	<b>\$ 475,880</b>	<b>\$ 651</b>	<b>\$ 21,319</b>	<b>\$ 27,271</b>	<b>\$ 99,824</b>	<b>\$ 907</b>	<b>\$ 7,652</b>	<b>\$ 13,050</b>	<b>\$ 23,960</b>	<b>\$ 2,653</b>	<b>\$ 2,206,800</b>

## Combining Statement of Net Assets - Nonmajor Proprietary Funds

At June 30, 2007

	<b>Enterprise Funds</b>		
	<b>Landfill</b>	<b>Storm Sewer</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents .....	\$ 104,988	\$ 604,114	\$ 709,102
Investments .....	192,181	—	192,181
Receivables			
Customer accounts and unbilled usage .....	30,827	16,766	47,593
Accrued interest .....	3,885	—	3,885
Inventories .....	—	300	300
Prepaid expenses .....	89	1,229	1,318
<b>Total Current Assets</b> .....	<b><u>331,970</u></b>	<b><u>622,409</u></b>	<b><u>954,379</u></b>
<b>Restricted Assets</b>			
Cash and cash equivalents .....	<u>—</u>	<b><u>50,000</u></b>	<b><u>50,000</u></b>
<b>Noncurrent Assets</b>			
Loan fees, net of accumulated amortization....	—	10,975	10,975
Capital assets .....	462	1,101,360	1,101,822
<b>Total Noncurrent Assets</b> .....	<b><u>462</u></b>	<b><u>1,112,335</u></b>	<b><u>1,112,797</u></b>
<b>Total Assets</b> .....	<b><u>\$ 332,432</u></b>	<b><u>\$ 1,784,744</u></b>	<b><u>\$ 2,117,176</u></b>
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
Accounts payable .....	\$ 630	\$ 65,136	\$ 65,766
Salaries and benefits payable .....	970	1,992	2,962
Accrued interest payable .....	—	1,792	1,792
Compensated absences .....	1,438	1,014	2,452
Revenue notes payable .....	—	27,000	27,000
<b>Total Current Liabilities</b> .....	<b><u>3,038</u></b>	<b><u>96,934</u></b>	<b><u>99,972</u></b>
Long-Term Liabilities			
Revenue notes payable	—	701,210	701,210
Compensated absences	2,249	1,587	3,836
<b>Total Long-Term Liabilities</b> .....	<b><u>2,249</u></b>	<b><u>702,797</u></b>	<b><u>705,046</u></b>
<b>Total Liabilities</b> .....	<b><u>5,287</u></b>	<b><u>799,731</u></b>	<b><u>805,018</u></b>
<b>Net Assets</b>			
Restricted for revenue note repayment .....	—	50,000	50,000
Unrestricted, designated for storm sewer improvements .....	—	492,953	492,953
Undesignated .....	327,145	442,060	769,205
<b>Total Net Assets</b> .....	<b><u>327,145</u></b>	<b><u>985,013</u></b>	<b><u>1,312,158</u></b>
<b>Total Liabilities and Net Assets</b> .....	<b><u>\$ 332,432</u></b>	<b><u>\$ 1,784,744</u></b>	<b><u>\$ 2,117,176</u></b>

## Combining Statement of Revenue, Expenses and Changes in Net Assets - Nonmajor Proprietary Funds

---

Year Ended June 30, 2007

	Enterprise Funds		
	Landfill	Storm Sewer	Total
<b>Operating Revenue</b>			
Charges for services.....	\$ 355,654	\$ 193,061	\$ 548,715
Miscellaneous.....	120	—	120
<b>Total Operating Revenue</b> .....	<u><b>355,774</b></u>	<u><b>193,061</b></u>	<u><b>548,835</b></u>
<b>Operating Expenses</b>			
Business-Type Activities			
Cost of sales and services.....	360,756	92,523	453,279
Depreciation and amortization .....	231	4,809	5,040
<b>Total Operating Expenses</b> .....	<u><b>360,987</b></u>	<u><b>97,332</b></u>	<u><b>458,319</b></u>
<b>Operating Income (Loss)</b> .....	<u><b>(5,213)</b></u>	<u><b>95,729</b></u>	<u><b>90,516</b></u>
<b>Nonoperating Income (Expenses)</b>			
Grant income .....	—	429,300	429,300
Interest income .....	13,384	18,028	31,412
Interest expense.....	—	(9,128)	(9,128)
<b>Total Nonoperating Income (Expenses)</b>	<u><b>13,384</b></u>	<u><b>438,200</b></u>	<u><b>451,584</b></u>
<b>Income Before Contributions and Transfers</b>	<b>8,171</b>	<b>533,929</b>	<b>542,100</b>
Transfers out .....	<u>(3,000)</u>	<u>—</u>	<u>(3,000)</u>
<b>Change in Net Assets</b> .....	<b>5,171</b>	<b>533,929</b>	<b>539,100</b>
Net Assets - Beginning of Year .....	<u>321,974</u>	<u>451,084</u>	<u>773,058</u>
<b>Net Assets - End of Year</b> .....	<u><b>\$ 327,145</b></u>	<u><b>\$ 985,013</b></u>	<u><b>\$ 1,312,158</b></u>

# Schedule of Changes in Assets and Liabilities - Agency Fund

Year Ended June 30, 2007

	<b>Lake Improvement Commission</b>			
	<b>Balance July 1, 2006</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2007</b>
<b>Assets</b>				
Cash and cash equivalents .....	\$ 386,960	\$ 1,680,485	\$ 855,757	\$ 1,211,688
Interest receivable .....	4,593	—	4,593	—
Due from other governments.....	43,873	11,772	43,873	11,772
Prepaid expenses.....	<u>12,300</u>	<u>10,575</u>	<u>12,300</u>	<u>10,575</u>
<b>Total Assets .....</b>	<b><u>\$ 447,726</u></b>	<b><u>\$ 1,702,832</u></b>	<b><u>\$ 916,523</u></b>	<b><u>\$ 1,234,035</u></b>
<b>Liabilities</b>				
Accounts payable .....	\$ —	\$ 25,974	\$ —	\$ 25,974
Due to other governments.....	<u>447,726</u>	<u>1,676,858</u>	<u>916,523</u>	<u>1,208,061</u>
<b>Total Liabilities .....</b>	<b><u>\$ 447,726</u></b>	<b><u>\$ 1,702,832</u></b>	<b><u>\$ 916,523</u></b>	<b><u>\$ 1,234,035</u></b>

## Schedule of Revenue by Source and Expenditures by Function - All Governmental Funds

---

Years Ended June 30, 2004 Through 2007

	2007	2006	2005	2004
<b>Receipts</b>				
Property tax .....	\$ 2,669,623	\$ 2,625,565	\$ 2,369,578	\$ 2,201,582
Tax increment financing collections .....	83,873	84,850	36,460	33,264
Other city tax .....	1,352,178	1,132,590	1,076,883	1,113,416
Licenses and permits.....	182,624	109,485	100,288	142,724
Use of money and property .....	759,810	693,381	298,777	445,652
Intergovernmental.....	2,563,765	1,535,489	2,059,008	1,476,894
Charges for services.....	487,579	430,791	472,177	464,140
Special assessments.....	—	—	1,343	50,142
Miscellaneous.....	<u>628,511</u>	<u>866,338</u>	<u>563,315</u>	<u>130,143</u>
<b>Total Receipts .....</b>	<b><u>\$ 8,727,963</u></b>	<b><u>\$ 7,478,489</u></b>	<b><u>\$ 6,977,829</u></b>	<b><u>\$ 6,057,957</u></b>
<b>Disbursements</b>				
Operating				
Public safety.....	\$ 1,731,813	\$ 1,747,843	\$ 1,741,482	\$ 1,640,085
Public works.....	871,683	921,209	947,440	819,776
Health and social services .....	12,850	10,700	9,034	15,700
Culture and recreation .....	715,125	837,193	829,871	837,515
Community and economic development.....	351,232	336,781	365,144	408,725
General government .....	287,970	273,172	278,934	268,705
Debt service.....	1,207,354	570,555	361,282	456,073
Capital projects.....	<u>7,596,287</u>	<u>3,807,559</u>	<u>2,150,456</u>	<u>1,676,848</u>
<b>Total Disbursements .....</b>	<b><u>\$ 12,774,314</u></b>	<b><u>\$ 8,505,012</u></b>	<b><u>\$ 6,683,643</u></b>	<b><u>\$ 6,123,427</u></b>

## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters**

---

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

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, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing our opinion on the effectiveness of the City of Storm Lake, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Storm Lake, Iowa's internal control over financial reporting.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Storm Lake, Iowa's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of the City of Storm Lake, Iowa's financial statements that is more than inconsequential will not be prevented or detected by the City of Storm Lake, Iowa's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Storm Lake, Iowa's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Storm Lake, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described below.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Storm Lake, Iowa's responses to findings identified in our audit are described below. While we have expressed our conclusions on the City's responses, we did not audit the City of Storm Lake, Iowa's responses and, accordingly, we express no opinion on them.

#### **07-C-1 Certified Budget**

**Finding** - Disbursements during the year ended June 30, 2007 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

**Auditor's Recommendation** - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

**City's Response** - The budget will be amended in the future, if applicable.

**Auditor's Conclusion** - Response accepted.

**07-C-2 Questionable Disbursements** - 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.

**07-C-3 Travel Expense** - No expenditures of City money for travel expenses of spouses of City officials or employees were noted. No travel advances to City officials or employees were noted.

**07-C-4 Business Transactions** - No business transactions were noted between the City and City officials or employees.

**07-C-5 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 ensure that the coverage is adequate for current operations.

**07-C-6 Council Minutes** - No transactions were found that we believe should have been approved in the Council minutes but were not. However, we did note three times during the year when Council minutes were not published within 15 days of the meeting as required by the Code of Iowa.

**Auditor's Recommendation** - The minutes should be published within 15 days of the Council meeting.

**City's Response** - We will do this.

**Auditor's Conclusion** - Response accepted.

**07-C-7 Deposits and Investments** - No instances of noncompliance with deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

**07-C-8 Revenue Note** - The City has complied with the revenue capital loan note provisions.

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

*HOGAN - HANSEN*

HOGAN - HANSEN

Mason City, Iowa  
November 8, 2007