

CITY OF LAKE MILLS

Lake Mills, Iowa

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

June 30, 2007

With Independent Auditor's Reports

CITY OF LAKE MILLS
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CITY OF LAKE MILLS

City Officials
June 30, 2007

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

INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lake Mills, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents of this report. These financial statements are the responsibility of the City of Lake Mills' management. My responsibility is to express opinions on these financial statements based on my audit.

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

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lake Mills, Iowa, as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated October 2, 2007 on my consideration of the City of Lake Mills' internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

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

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Lake Mills' basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included on pages 25 through 31 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

S/ Stanley E. Siebke

Urbandale, Iowa
October 2, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Lake Mills' Annual Financial Report presents management's discussion and analysis of the City's fiscal performance during the fiscal year that ended on June 30, 2007. It should be read in conjunction with the City's financial statements, which immediately follow this section.

2007 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased approximately 7%, or \$173,622, from Fiscal Year 2006 to Fiscal Year 2007. Grants received in FY 2006 for the Owner Occupied Housing, Streetscape and Recreational Trail Projects were the major reason for the decrease in FY 2007.
- Disbursements of the City's governmental activities decreased approximately 56%, or \$2,619,175, in Fiscal 2007 from Fiscal 2006. The decrease was mainly due to expenditures for the Streetscape Project and refunding of the G.O. Sewer Bonds that were completed in Fiscal 2006.
- The City's total cash basis net assets increased 14.5%, or \$1,053,401, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased \$316,048 and the assets of the business type activities increased by \$737,353.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$1,781,530 to \$2,097,578 for Fiscal Year 2007. The analysis that follows focuses on the changes in cash balances for governmental activities.

City of Lake Mills' Changes in Net Assets Governmental Activities

	<u>2007</u>	<u>2006</u>
Receipts & Transfers:		
Program Receipts:		
Charges for Service	\$ 258,605	262,915
Operating Grants and Contributions	361,356	423,704
Capital Grants and Contributions	170,032	366,688
General Receipts:		
Property tax levied for:		
General purposes	394,188	385,213
Tax increment financing	752,995	663,129
Debt service	87,839	172,946
Local option sales tax	154,214	138,344
Unrestricted interest on investments	119,128	70,243
Sale of assets	13,711	5,000
Proceeds of Long Term Debt	0	1,698,829
Miscellaneous	38,319	35,827
Transfers	36,252	17,554
Total Receipts and Transfers	<u>2,386,639</u>	<u>4,240,392</u>
Disbursements:		
Public Safety	435,163	424,389
Public Works	380,796	339,875
Culture and Recreation	300,204	318,738
Community and Economic Development	209,294	449,145
General Government	79,751	84,434
Debt Service	525,228	1,357,768
Capital Projects	140,155	1,715,417
Total Disbursements	<u>2,070,591</u>	<u>4,689,766</u>
Increase (Decrease) in Cash Basis Net Assets	316,048	(449,374)
Cash Basis Net Assets beginning of year	<u>1,781,530</u>	<u>2,230,904</u>
Cash Basis Net Assets end of year	<u>\$ 2,097,578</u>	<u>1,781,530</u>

The City's total receipts for governmental activities decreased approximately 44%, or \$1,853,753. The decrease in receipts was due to: Proceeds of Long Term Debt of \$1,698,829 for the 2005B G.O. Urban Renewal Bonds for the Streetscape Project, Owner Occupied Rehab Grant of \$145,103, receipts for the Streetscape Project of \$163,000 and for the Recreational Trail Project of \$118,331, which were received in Fiscal 2006. This decrease was partially offset by increased interest and Tax Increment Financing revenues.

The total cost of all programs and services decreased by approximately 56% or \$2,619,175. Public Safety was up approximately \$10,000 due to the Fire Department expenditures being up as a result of a FEMA Grant received for equipment in Fiscal 2007, offset by the Police Department expenditures being down as a result of the purchase of a Police car in Fiscal 2006. Culture and Recreation was down approximately \$18,000 due to Park expenditures being up as a result of equipment purchased through grants in Fiscal 2007, offset by Pool expenditures being down as a result of painting of the aquatic center in Fiscal 2006 and Civic Center expenditures being down as a result of installation of a new roof on the Civic Center in Fiscal 2006. Community and Economic Development was down approximately \$240,000 due to the Recreational Trail Project, the Owner Occupied Rehab Project and a Revolving Loan Fund Loan in Fiscal 2006 offset by the Lake Mills Entertainment Loan in Fiscal 2007. Debt Service was down approximately \$832,000 due to refunding of the G.O. Sewer Improvement and Refunding Bonds, Series 1998A completed in Fiscal 2006. Capital Projects were down approximately \$1,575,000 due to the Streetscape Project completed in Fiscal 2006 offset by the New Water Treatment Plant expenditures in 2007.

The City property tax rate decreased slightly for 2007. The decrease was mainly due to the G.O. Water Bonds Series 1998A being paid in full in 2006. The increased residential roll-back continued to decrease the overall taxable valuation for the City.

The cost of all governmental activities this year was \$2.070 million compared to \$4.689 million last year. However, as shown in the Statement of Activities and Net Assets on pages 11-12, the amount of property taxes used to finance these activities was only \$1.235 million. Other funding came from fees paid by those directly benefited from the programs (\$258,605), by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$531,388). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2007 from \$1,053,307 to \$789,993, principally due to the Owner Occupied Rehab, Recreational Trail and Streetscape Projects being completed in 2006. The City paid for the remaining "public benefit" portion of governmental activities with \$1,235,022 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

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

	<u>2007</u>	<u>2006</u>
Receipts:		
Charges for service:		
Water	\$ 280,195	281,786
Sewer	292,862	308,476
Electric	2,599,260	2,192,295
Operating grants, contributions and restricted interest	<u>252,295</u>	<u>143,176</u>
Total Receipts	<u>3,424,612</u>	<u>2,925,733</u>
Disbursements and Transfers:		
Water	196,842	189,115
Sewer	195,517	136,942
Electric	2,258,648	2,072,166
Transfers	<u>36,252</u>	<u>17,554</u>
Total Disbursements and Transfers	<u>2,687,259</u>	<u>2,415,777</u>
Increase in Cash Basis Net Assets	737,353	509,956
Cash Basis Net Assets beginning of year	<u>5,498,076</u>	<u>4,988,120</u>
Cash Basis Net Assets end of year	<u>\$ 6,235,429</u>	<u>5,498,076</u>

Total business type activities receipts for the fiscal year were \$3.424 million compared to \$2.925 million last year. This increase was due to higher interest rates resulting in an increase in interest revenue, rate increases and increased electric usage resulting in increased charge for services. Total disbursements and transfers for the fiscal year were \$2.687 million compared to \$2.416 million last year. The main reason for this increase was increases in: Salaries and Overtime, Purchased Current, Generating Fuel, Electric Operating Supplies, Repair & Maintenance of Electric Equipment and Repair & Maintenance of Electric and Sewer Lines. The cash balance increased by \$737,353. The major contributing factors to the increase in cash balance were increased interest revenue, charge for service revenue adequate to provide for current expenditures and future capital outlay, and leachate revenue that is not used for normal operating expenditures.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Lake Mills completed the year, its governmental funds reported a combined fund balance of \$2,097,578, an increase of \$316,048 from last year's total of \$1,781,530. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$158,799 from the prior year to \$1,215,837. The major reason for this increase was due to funds that were received in Fiscal 2007 that will be spent in Fiscal 2008 and future maintenance.
- The Road Use Tax Fund cash balance decreased by \$1,755 to \$279,697 during the fiscal year. The decrease is due to vehicle repairs and increased fuel costs.
- The Urban Renewal Tax Increment Fund cash balance increased by \$70,419 to \$95,130 during the fiscal year. This balance is accumulating to make it possible for early call of the General Obligation Tax Increment Bonds for the Aquatic Center and Streetscape Project.

- The Debt Service Fund cash balance stayed constant at \$56,676 during the fiscal year.
- The Capital Projects Fund cash balance increased by \$32,213 to \$316,570 during the fiscal year. The increase is due to receipts from assessments for the 10th Avenue Street Project, the North Western Street Sewer Project, Sidewalk and Streetscape assessments.
- **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**
- The Water Fund cash balance increased by \$209,848 to \$1,173,102, due primarily to water surcharge revenues which are being reserved for the water treatment plant project scheduled for Fiscal 2008, and a transfer in from TIF for funds borrowed for the Streetscape Project.
- The Sewer Fund cash balance increased by \$108,977 to \$482,993, due primarily to receipt of leachate revenue, increased interest revenue and an increase in rates to help cover maintenance and future upgrades to the infrastructure.
- The Electric Fund cash balance increased by \$418,528 to \$4,579,334 primarily due to an increase in interest and charge for services revenue.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 21, 2007 and resulted in an increase in disbursements related to the use of grants, donations and memorials that were received, ILEA Expenditures, unanticipated repairs, increased fuel prices, the Streetscape Project, Skid Loader purchase, Drainage District 47 Engineering, a loan to Lake Mills Entertainment Inc., purchase of a new Computer System, and Electric Improvements for the Lake Mills School Project.

DEBT ADMINISTRATION

On June 30, 2007, the City had \$3,020,000 in bonds and other long-term debt, compared to \$3,930,000 last year, as shown below.

City of Lake Mills' Outstanding Debt		
	As of	
	<u>6/30/2007</u>	<u>6/30/2006</u>
General Obligation Bonds	\$ 2,575,000	3,000,000
Revenue Bonds	445,000	930,000
Total	<u>\$ 3,020,000</u>	<u>3,930,000</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,575,000 is significantly below its constitutional debt limit of \$4,509,268.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Lake Mills' elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's employment growth has mirrored its population growth during 1999 – 2007. The City / County's unemployment rate of 3.5 percent is slightly less than the State's unemployment rate of 3.8 percent and the National rate of 4.7 percent.

Inflation in the State for fiscal year 2007 ran close to the national level. The State's CPI increase was 2.4% and the National CPI increase was 2.7% for fiscal year 2007.

These indicators were taken into account when adopting the budget for fiscal year 2008. Amounts available for appropriation in the 2008 operating budget are \$7.502 million, an increase of 14.3% over the 2007 actual. Budgeted disbursements for 2008 increased approximately 37.8% from the 2007 actual to \$7.585 million. The main reason for the increase in amounts available and budgeted disbursement are: the North Water Treatment Plant Project and the purchase of a new Fire Truck.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$83,186 by the close of 2008.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF LAKE MILLS
Statement of Activities and Net Assets - Cash Basis
As of and For the Year Ended June 30, 2007

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts Operating Grants, Contributions, and Restricted Interest</u>
Function/Programs:			
Governmental activities:			
Public safety	\$ 435,163	3,851	44,746
Public works	380,796	167,824	186,727
Culture and recreation	300,204	82,258	34,992
Community and economic development	209,294	0	94,889
General government	79,751	4,672	0
Debt service	525,228	0	2
Capital projects	140,155	0	0
Total Governmental Activities	<u>2,070,591</u>	<u>258,605</u>	<u>361,356</u>
Business type activities:			
Water	196,842	280,195	36,495
Sewer	195,517	292,862	11,632
Electric	2,258,648	2,599,260	204,168
Total Business Type Activities	<u>2,651,007</u>	<u>3,172,317</u>	<u>252,295</u>
Total	<u>\$ 4,721,598</u>	<u>3,430,922</u>	<u>613,651</u>

General Receipts:

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

Total General Receipts

Change in Cash Basis Net Assets

Cash Basis Net Assets at Beginning of Year

Cash Basis Net Assets at End of Year

Cash Basis Net Assets:

Restricted:
 Streets
 Urban renewal purposes
 Debt service
Unrestricted

Total Cash Basis Net Assets

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

CITY OF LAKE MILLS
Statement of Activities and Net Assets - Cash Basis
As of and For the Year Ended June 30, 2007

Capital Grants, Contributions, and Restricted <u>Interest</u>	<u>Net (Disbursements) Receipts and Changes in Cash Basis Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
0	(386,566)	0	(386,566)
0	(26,245)	0	(26,245)
0	(182,954)	0	(182,954)
4,669	(109,736)	0	(109,736)
0	(75,079)	0	(75,079)
0	(525,226)	0	(525,226)
165,363	25,208	0	25,208
<u>170,032</u>	<u>(1,280,598)</u>	<u>0</u>	<u>(1,280,598)</u>
0	0	119,848	119,848
0	0	108,977	108,977
0	0	544,780	544,780
<u>0</u>	<u>0</u>	<u>773,605</u>	<u>773,605</u>
<u>170,032</u>	<u>(1,280,598)</u>	<u>773,605</u>	<u>(506,993)</u>
	394,188	0	394,188
	752,995	0	752,995
	87,839	0	87,839
	154,214	0	154,214
	119,128	0	119,128
	13,711	0	13,711
	38,319	0	38,319
	36,252	(36,252)	0
	<u>1,596,646</u>	<u>(36,252)</u>	<u>1,560,394</u>
	316,048	737,353	1,053,401
	1,781,530	5,498,076	7,279,606
	<u>\$ 2,097,578</u>	<u>6,235,429</u>	<u>8,333,007</u>
\$ 279,697	0	279,697	
95,130	0	95,130	
56,676	1,418,839	1,475,515	
1,666,075	4,816,590	6,482,665	
<u>\$ 2,097,578</u>	<u>6,235,429</u>	<u>8,333,007</u>	

CITY OF LAKE MILLS
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and For the Year Ended June 30, 2007

	<u>Special Revenue</u>				
	<u>General</u>	Road Use <u>Tax</u>	<u>TIF</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Receipts:					
Property tax	\$ 298,922	0	0	87,839	0
TIF revenues	0	0	752,995	0	0
Other city taxes	154,214	0	0	0	0
Licenses and permits	5,350	0	0	0	0
Use of money and property	123,578	0	0	2	6,694
Intergovernmental	65,453	179,801	0	0	49,319
Charges for services	239,900	0	0	0	0
Special assessments	0	0	0	0	141,176
Miscellaneous	67,076	0	0	0	13,443
Total Receipts	<u>954,493</u>	<u>179,801</u>	<u>752,995</u>	<u>87,841</u>	<u>210,632</u>
Disbursements:					
Operating:					
Public safety	404,933	0	0	0	0
Public works	187,573	181,556	3,124	0	0
Culture and recreation	300,004	0	0	0	0
Community and economic development	103,500	0	52,955	0	52,839
General government	75,081	0	0	0	0
Capital outlay:					
Public safety	30,230	0	0	0	0
Debt service	0	0	0	525,228	0
Capital projects	0	0	0	0	140,155
Total Disbursements	<u>1,101,321</u>	<u>181,556</u>	<u>56,079</u>	<u>525,228</u>	<u>192,994</u>
Excess (Deficit) of Receipts over (under)					
Disbursements	<u>(146,828)</u>	<u>(1,755)</u>	<u>696,916</u>	<u>(437,387)</u>	<u>17,638</u>
Transfers:					
Operating transfers in	325,628	0	0	438,032	20,001
Operating transfers out	(20,001)	0	(626,497)	0	(5,426)
	<u>305,627</u>	<u>0</u>	<u>(626,497)</u>	<u>438,032</u>	<u>14,575</u>
Net Change in Cash Balances	158,799	(1,755)	70,419	645	32,213
Cash Balances at Beginning of Year	1,057,038	281,452	24,711	56,031	284,357
Cash Balances at End of Year	<u>\$ 1,215,837</u>	<u>279,697</u>	<u>95,130</u>	<u>56,676</u>	<u>316,570</u>
Cash Basis Fund Balances:					
Reserved:					
Debt Service	\$ 0	0	0	56,676	0
Unreserved:					
General fund	1,215,837	0	0	0	0
Special revenue funds	0	279,697	95,130	0	0
Capital projects fund	0	0	0	0	316,570
Permanent fund	0	0	0	0	0
	<u>\$ 1,215,837</u>	<u>279,697</u>	<u>95,130</u>	<u>56,676</u>	<u>316,570</u>

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

CITY OF LAKE MILLS
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and For the Year Ended June 30, 2007

Other Nonmajor Governmental Funds	<u>Total</u>
95,266	482,027
0	752,995
0	154,214
0	5,350
3,573	133,847
4,669	299,242
0	239,900
0	141,176
61,117	141,636
164,625	2,350,387
0	404,933
8,543	380,796
200	300,204
0	209,294
4,670	79,751
0	30,230
0	525,228
0	140,155
13,413	2,070,591
151,212	279,796
0	783,661
(95,485)	(747,409)
(95,485)	36,252
55,727	316,048
77,941	1,781,530
133,668	2,097,578
0	56,676
0	1,215,837
108,600	483,427
0	316,570
25,068	25,068
133,668	2,097,578

CITY OF LAKE MILLS
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Proprietary Funds
As of and For the Year Ended June 30, 2007

	<u>Enterprise Funds</u>			<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	
Operating Receipts:				
Charges for services	\$ 278,502	183,466	2,525,725	2,987,693
Miscellaneous	1,693	109,396	73,535	184,624
Total Operating Receipts	<u>280,195</u>	<u>292,862</u>	<u>2,599,260</u>	<u>3,172,317</u>
Disbursements:				
Operating:				
Business type activities	184,842	168,309	1,659,091	2,012,242
Capital outlay:				
Business type activities	12,000	27,208	73,637	112,845
Total Operating Disbursements	<u>196,842</u>	<u>195,517</u>	<u>1,732,728</u>	<u>2,125,087</u>
Excess of Operating Receipts over Operating Disbursements	<u>83,353</u>	<u>97,345</u>	<u>866,532</u>	<u>1,047,230</u>
Non-Operating Receipts (Disbursements):				
Use of money and property	36,495	11,632	204,168	252,295
Debt service	0	0	(525,920)	(525,920)
Total Non-Operating Receipts (Disbursements)	<u>36,495</u>	<u>11,632</u>	<u>(321,752)</u>	<u>(273,625)</u>
Operating Transfers In (Out)	<u>90,000</u>	<u>0</u>	<u>(126,252)</u>	<u>(36,252)</u>
Net Change in Cash Balances	209,848	108,977	418,528	737,353
Cash Balances at Beginning of Year	<u>963,254</u>	<u>374,016</u>	<u>4,160,806</u>	<u>5,498,076</u>
Cash Balances at End of Year	<u>\$ 1,173,102</u>	<u>482,993</u>	<u>4,579,334</u>	<u>6,235,429</u>
Cash Basis Fund Balances:				
Restricted:				
Restricted for debt service	\$ 0	0	1,418,839	1,418,839
Unrestricted:				
Unreserved	<u>1,173,102</u>	<u>482,993</u>	<u>3,160,495</u>	<u>4,816,590</u>
Total Cash Basis Fund Balances	<u>\$ 1,173,102</u>	<u>482,993</u>	<u>4,579,334</u>	<u>6,235,429</u>

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

CITY OF LAKE MILLS
Notes to the Financial Statements
June 30, 2007

(1) Summary of Significant Accounting Policies

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

Reporting Entity

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

The City of Lake Mills has no component units.

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

Basis of Presentation

Government-wide Financial Statements

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

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

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

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

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

CITY OF LAKE MILLS
Notes to the Financial Statements - Continued

Fund Financial Statements

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

The City reports the following major governmental funds:

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

Special Revenue Funds:

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

Measurement Focus and Basis of Accounting

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

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

CITY OF LAKE MILLS
Notes to the Financial Statements – Continued

Budgets and Budgetary Accounting

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

2) Pooled Deposits and Investments

The City's deposits 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.

Funds that have deficit cash in bank balances are considered to have borrowed cash from other funds.

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

The City's investments at June 30, 2007 included \$1,439,292 deposited with the Iowa Public Agency Investment Trust and \$186,828 deposited with the Wisconsin State Treasurer through the Western Wisconsin Municipal Power Group.

(3) Long-Term Debt

A summary of the City's June 30, 2007 long-term debt is as follows:

<u>Maturity</u>	<u>Interest Rates</u>	<u>General Obligation Bonds</u>		<u>Revenue Bonds</u>		<u>Total</u>
		<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2008	2.80 - 4.40%	345,000	86,577	445,000	19,580	896,157
2009	2.90 - 3.80	370,000	75,783	0	0	445,783
2010	3.05 - 4.00	385,000	63,737	0	0	448,737
2011	3.10 - 4.00	395,000	50,713	0	0	445,713
2012	3.25 - 3.30	260,000	37,085	0	0	297,085
		<u>1,755,000</u>	<u>313,895</u>	<u>445,000</u>	<u>19,580</u>	<u>2,533,475</u>
2013-2016	3.35 - 3.65	820,000	68,563	0	0	888,563
		<u>\$ 2,575,000</u>	<u>382,458</u>	<u>445,000</u>	<u>19,580</u>	<u>3,422,038</u>

Interest paid on general obligation bonds amounted to \$99,028 and interest paid on revenue bonds amounted to \$40,920 during the year ended June 30, 2007. All of these interest amounts were expensed.

Cash restricted for the payment of bonds at June 30, 2007 is as follows:

General Obligation Bonds	\$ 56,676
Revenue Bonds	<u>11,927</u>
	<u>\$ 68,603</u>

CITY OF LAKE MILLS
Notes to the Financial Statements - Continued

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

Year ending <u>June 30,</u> 2008	<u>Amount</u>
	\$ <u>464,580</u>

Changes in the general long-term debt account group during the year ended June 30, 2007 are summarized as follows:

Balance at beginning of year	\$ 3,000,000
Principal paid	<u>(425,000)</u>
Balance at end of year	<u>\$ 2,575,000</u>

(4) Retirement System - IPERS

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.08% and 9.12%, respectively. For the years ended June 30, 2006 and 2005, the contribution rates for police employees and the City were 6.16% and 9.23%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$55,373, \$51,087, and \$50,369, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as expenditures by the City until used or paid. The City's approximate maximum liability for unrecognized accrued employee benefits at June 30, 2007 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 46,153
Sick leave	<u>110,806</u>
	<u>\$ 156,959</u>

The liability has been computed based on rates of pay as of June 30, 2007.

CITY OF LAKE MILLS
Notes to the Financial Statements – Continued

- (6) Risk Management
The City of Lake Mills is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.
- (7) Property Tax Calendar
Property taxes are collected and remitted to the City by the county government. Taxes are levied annually on July 1 based on an assessment as of January 1. Taxes are due one-half on September 30 in the year following the levy and one-half on the subsequent March 31. The lien date is July 1. Current and delinquent tax payments are recognized as receipts by the City when received.
- (8) Related Party Transactions
During the year ended June 30, 2007, the City purchased goods and services from a business owned by a city official totaling \$11,989.
- (9) Notes Receivable
The City is the holder of notes receivable in connection with a revolving loan fund established through Community Development Block Grants. The interest free loans are as follows:

Dras Cases, Inc.	\$ 40,000
Quality Composites	12,320
From the Heart	4,085
Stowmaster	50,000
Cavett's Lawn and Garden Center	50,000
	\$ 156,405

A city official is an officer of Quality Composites, even though he was not a city official at the time the loan was made to this company. During the year ended June 30, 2007, Quality Composites repaid \$6,160 on the loan.

During the year ended June 30, 2007, the principal balance received from From the Heart was through a bankruptcy trustee. Collection of the remaining balance of \$4,085 is doubtful.

CITY OF LAKE MILLS
Notes to the Financial Statements – Continued

(10) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General Fund	Special Revenue Fund - Employee Benefits	\$ 95,485
	Special Revenue Fund - TIF	98,465
	Capital Projects Fund	2,851
	Proprietary Fund - Electric	128,827
		<u>325,628</u>
Debt Service Fund	Special Revenue Fund - TIF	<u>438,032</u>
Capital Projects Fund	General Fund	<u>20,001</u>
Proprietary Fund - Water	Special Revenue Fund - TIF	<u>90,000</u>
Proprietary Fund - Electric	Capital Projects Fund	<u>2,575</u>
		<u><u>\$ 876,236</u></u>

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

(11) Major Customer

The City of Lake Mills Enterprise Funds have one major customer which accounted for 30% of the charges for services in the enterprise funds during the year ended June 30, 2007.

CITY OF LAKE MILLS
 Budgetary Comparison Schedule of Receipts, Disbursements
 and Changes in Cash Balances - Budget and Actual (Cash Basis)
 All Governmental and Proprietary Funds
 Year Ended June 30, 2007

	Governmental <u>Funds</u>	Proprietary <u>Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 482,027	0	482,027
TIF revenues	752,995	0	752,995
Other city taxes	154,214	0	154,214
Licenses and permits	5,350	0	5,350
Use of money and property	133,847	252,295	386,142
Intergovernmental	299,242	0	299,242
Charges for services	239,900	2,987,693	3,227,593
Special assessments	141,176	0	141,176
Miscellaneous	141,636	184,624	326,260
 Total Receipts	 <u>\$ 2,350,387</u>	 <u>3,424,612</u>	 <u>5,774,999</u>
Disbursements:			
Public safety	435,163	0	435,163
Public works	380,796	0	380,796
Culture and recreation	300,204	0	300,204
Community and economic development	209,294	0	209,294
General government	79,751	0	79,751
Debt service	525,228	0	525,228
Capital projects	140,155	0	140,155
Business type activities	0	2,651,007	2,651,007
 Total Disbursements	 <u>2,070,591</u>	 <u>2,651,007</u>	 <u>4,721,598</u>
Excess (Deficit) of Receipts over (under) Disbursements	279,796	773,605	1,053,401
Other Financing Sources (net)	<u>36,252</u>	<u>(36,252)</u>	<u>0</u>
Excess of Receipts and Other Financing Sources over Disbursements and Other Financing Uses	316,048	737,353	1,053,401
Balances at Beginning of Year	1,781,530	5,498,076	7,279,606
Balances at End of Year	<u>\$ 2,097,578</u>	<u>6,235,429</u>	<u>8,333,007</u>

CITY OF LAKE MILLS
 Budgetary Comparison Schedule of Receipts, Disbursements
 and Changes in Cash Balances - Budget and Actual (Cash Basis)
 All Governmental and Proprietary Funds
 Year Ended June 30, 2007

<u>Budgeted Amounts</u>		<u>Variance to Final</u>
<u>Original</u>	<u>Amended</u>	
476,541	476,541	5,486
600,000	676,084	76,911
135,221	150,355	3,859
3,675	3,675	1,675
148,500	155,194	230,948
196,265	270,994	28,248
2,907,481	3,060,799	166,794
0	2,125	139,051
60,312	168,748	157,512
<u>4,527,995</u>	<u>4,964,515</u>	<u>810,484</u>
406,514	542,349	107,186
355,369	402,963	22,167
299,359	311,805	11,601
194,127	323,966	114,672
89,265	93,270	13,519
525,228	525,228	0
0	188,105	47,950
2,443,631	2,660,944	9,937
<u>4,313,493</u>	<u>5,048,630</u>	<u>327,032</u>
214,502	(84,115)	1,137,516
<u>0</u>	<u>100,000</u>	<u>(100,000)</u>
214,502	15,885	1,037,516
6,539,076	6,539,076	740,530
<u>6,753,578</u>	<u>6,554,961</u>	<u>1,778,046</u>

CITY OF LAKE MILLS
Notes to Required Supplementary Information
June 30, 2007

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. During the year, one budget amendment increased budgeted receipts by \$436,520 and budgeted disbursements by \$735,137. The budget amendment is reflected in the final budgeted figures.

CITY OF LAKE MILLS
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances -
Nonmajor Governmental Funds
As of and For the Year Ended June 30, 2007

	<u>Special Revenue</u>		
	<u>Employee Benefits</u>	<u>Revolving Loan Fund</u>	<u>Permanent</u>
Receipts:			
Property tax	\$ 95,266	0	0
Use of money and property	0	3,046	527
Intergovernmental	0	0	4,669
Miscellaneous	0	46,575	14,542
Total Receipts	<u>95,266</u>	<u>49,621</u>	<u>19,738</u>
Disbursements:			
Operating:			
Public works	0	0	8,543
Culture and recreation	0	0	200
General government	0	0	4,670
Total Disbursements	<u>0</u>	<u>0</u>	<u>13,413</u>
Excess of Receipts over Disbursements	95,266	49,621	6,325
Operating transfers out	<u>(95,485)</u>	<u>0</u>	<u>0</u>
Net Change in Cash Balances	(219)	49,621	6,325
Cash Balances at Beginning of Year	219	58,979	18,743
Cash Balances at End of Year	<u>\$ 0</u>	<u>108,600</u>	<u>25,068</u>
Cash Basis Cash Balances:			
Unreserved:			
Special revenue funds	\$ 0	108,600	0
Permanent fund	0	0	25,068
	<u>\$ 0</u>	<u>108,600</u>	<u>25,068</u>

CITY OF LAKE MILLS
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances -
Nonmajor Governmental Funds
As of and For the Year Ended June 30, 2007

Total

95,266

3,573

4,669

61,117

164,625

8,543

200

4,670

13,413

151,212

(95,485)

55,727

77,941

133,668

108,600

25,068

133,668

CITY OF LAKE MILLS
 Schedule of Long-Term Debt and Interest
 June 30, 2007

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

CITY OF LAKE MILLS
Schedule of Long-Term Debt and Interest
June 30, 2007

Amount Originally Issued	Balance June 30, 2006	Issued	Redeemed	Balance June 30, 2007	Interest Paid
1,100,000	\$ 655,000	0	120,000	535,000	24,720
745,000	745,000	0	170,000	575,000	22,370
1,730,000	1,600,000	0	135,000	1,465,000	51,938
	<u>3,000,000</u>	<u>0</u>	<u>425,000</u>	<u>2,575,000</u>	<u>99,028</u>
2,575,000	<u>930,000</u>	<u>0</u>	<u>485,000</u>	<u>445,000</u>	<u>40,920</u>
	<u>\$ 3,930,000</u>	<u>0</u>	<u>910,000</u>	<u>3,020,000</u>	<u>139,948</u>

CITY OF LAKE MILLS

Bond Maturities

June 30, 2007

General Obligation Bonds

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Urban Renewal</u> <u>Issued 11-1-01</u>		<u>G.O. Refunding</u> <u>Issued 4-1-05</u>		<u>Urban Renewal</u> <u>Issued 7-1-05</u>	
	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2008	3.60%	\$ 125,000	2.80	85,000	2.90	135,000
2009	3.80	130,000	2.90	95,000	3.00	145,000
2010	4.00	135,000	3.05	100,000	3.05	150,000
2011	4.00	145,000	3.10	95,000	3.15	155,000
2012	--	--	3.30	100,000	3.25	160,000
2013	--	--	3.35	100,000	3.35	170,000
2014	--	--	--	--	3.45	175,000
2015	--	--	--	--	3.55	185,000
2016	--	--	--	--	3.65	190,000
		<u>\$ 535,000</u>		<u>575,000</u>		<u>1,465,000</u>

Electric Revenue Bonds

Issued 6-30-98

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

CITY OF LAKE MILLS
Bond Maturities
June 30, 2007

<u>Total</u>
345,000
370,000
385,000
395,000
260,000
270,000
175,000
185,000
190,000
<u>2,575,000</u>

CITY OF LAKE MILLS

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

		<u>Years Ended June 30,</u>			
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	
Receipts:					
Property tax	\$ 482,027	556,235	544,505	565,217	
TIF revenues	752,995	663,129	553,230	458,163	
Other city taxes	154,214	140,268	132,969	137,841	
Licenses and permits	5,350	4,596	3,769	3,480	
Use of money and property	133,847	122,356	52,117	30,279	
Intergovernmental	299,242	645,188	397,101	226,039	
Charges for services	239,900	232,693	205,340	206,891	
Special assessments	141,176	18,156	38,204	16,938	
Miscellaneous	141,636	141,388	158,392	153,762	
Total Receipts	<u>\$ 2,350,387</u>	<u>2,524,009</u>	<u>2,085,627</u>	<u>1,798,610</u>	
Disbursements:					
Public safety	\$ 435,163	424,389	448,647	374,684	
Public works	380,796	339,875	339,900	286,947	
Culture and recreation	300,204	318,738	271,641	282,080	
Community and economic development	209,294	449,145	267,539	263,195	
General government	79,751	84,434	81,583	94,410	
Debt service	525,228	1,357,768	428,635	420,567	
Capital projects	140,155	1,715,417	677,317	183,902	
Total Disbursements	<u>\$ 2,070,591</u>	<u>4,689,766</u>	<u>2,515,262</u>	<u>1,905,785</u>	

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

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

I have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lake Mills, Iowa as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued my report thereon dated October 2, 2007. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Lake Mills' internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of Lake Mills' internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies but none that I consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Lake Mills' ability to initiate, authorize, record, process, or report financial data reliably in accordance with another comprehensive basis of accounting such that there is more than a remote likelihood a misstatement in the City of Lake Mills' financial statements that is more than inconsequential will not be prevented or detected by the City of Lake Mills' internal control. I consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I believe none of the items are material weaknesses. Prior year significant deficiencies have been resolved except for item 07-II-A.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lake Mills' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City of Lake Mills' operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items 07-III-D and 07-III-I.

The City of Lake Mills' responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City of Lake Mills' responses, I did not audit the City of Lake Mills' responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Lake Mills and other parties to whom the City of Lake Mills may report. This report is not intended to be and should not be used by anyone other than these specified parties.

S/ Stanley E. Siebke

Urbandale, Iowa
October 2, 2007

CITY OF LAKE MILLS
Schedule of Findings
Year Ended June 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements which were prepared in conformity with another comprehensive basis of accounting.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF LAKE MILLS
Schedule of Findings
Year Ended June 30, 2007

Part II: Findings Related to the Financial Statements

Instances of non-compliance

No matters were noted.

Significant Deficiency

07-II-A Segregation of Duties

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

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

Response: The City Council is aware of this situation.

Conclusion: Response accepted.

CITY OF LAKE MILLS
Schedule of Findings
Year Ended June 30, 2007

Part III: Other Findings Related to Statutory Reporting

07-III-A Certified Budget

The City properly approved a certified budget for the year ended June 30, 2007 and subsequently amended that budget. The budgeted amounts were not exceeded during the year.

07-III-B Questionable Disbursements

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

07-III-C Travel Expense

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

07-III-D Business Transactions

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

Dave's 66 Service	David Anderson	\$ 11,989
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Since the payments are in excess of \$2,500, they are in violation of Chapter 362.5(11) of the Code of Iowa.

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

Conclusion: Response accepted.

07-III-E Bond Coverage

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

07-III-F Council Minutes

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

07-III-G Electric Revenue Bonds

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

07-III-H Deposits and Investments

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

CITY OF LAKE MILLS
Schedule of Findings
Year Ended June 30, 2007

07-III-I Economic Development

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

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

Response: We will do this.

Conclusion: Response accepted.