

**CLEAR LAKE SANITARY DISTRICT
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
JUNE 30, 2007**

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CLEAR LAKE SANITARY DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
BOARD OF TRUSTEES (as of June 30, 2007)		
John R. Miller	President/Trustee	January 1, 2013
Tom Lincoln	Vice President/Trustee	January 1, 2011
Donald L. Morrison	Clerk/Trustee	January 1, 2009
Kelly McLaughlin	Treasurer/Trustee	January 1, 2011
Tim Clark	Trustee	January 1, 2013

ATTORNEY

Douglas R. Grabinski



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Clear Lake Sanitary District

We have audited the accompanying financial statements of the Clear Lake Sanitary District as of and for the year ended June 30, 2007, as listed in the contents page of this report. These financial statements are the responsibility of the District'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 opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Also, as described in Note 10 to the financial statements, the Clear Lake Sanitary District adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended June 30, 2007.

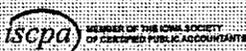
In our opinion, the financial statements referred to above present fairly, in all material respects, the cash receipts, cash disbursements and cash balances of the Clear Lake Sanitary District as of June 30, 2007, and the revenues received and expenses paid for the year then ended on the basis of accounting as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2008 on our consideration of the Clear Lake Sanitary District'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Clear Lake, IA
641-357-5291

Mason City, IA
641-423-3535

Webster City, IA
515-832-4783



The management's discussion and analysis on pages 6-8 and the budgetary comparison information on page 18 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information 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 the 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.

Potter & Brant, P.L.C.

Potter & Brant, P.L.C.
Certified Public Accountants
Clear Lake, Iowa
February 8, 2008

**CLEAR LAKE SANITARY DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2007**

Our discussion and analysis of Clear Lake Sanitary District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2007, within the limitations of the District's cash basis of accounting. Please read it in conjunction with the District's financial statements that begin on page 10.

Because the District is implementing new reporting standards for the fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operation.

2007 FINANCIAL HIGHLIGHTS

Receipts of the District's activities increased .7%, or approximately \$19,500, from fiscal 2006 to fiscal 2007. Real estate and personal property taxes increased approximately \$35,500 and other income increased approximately \$209,300.

Disbursements of the District's activities decreased 45.3%, or approximately \$2,068,200, in fiscal 2007 from fiscal 2006, due primarily to a decrease of approximately \$2,039,700 in capital outlays.

The District's total cash basis net assets increased 21.3%, or approximately \$368,200, from June 30, 2006 to June 30, 2007.

USING THIS ANNUAL REPORT

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

Report Components

Management's Discussion and Analysis: Introduces the basic financial statements and provides analytical overview of the District's financial activities.

Financial Statements: The Statement of Net Assets-Cash Basis reports the balances of cash and investments as of June 30, 2007. The Statement of Cash Receipts, Cash Disbursements and Changes in Cash Balances – Cash Basis provides information about the activities of the District government-wide (or "as a whole") and presents an overall view of the District's finances. The statement presents receipts and disbursements by each fund of the District.

Notes to the Financial Statements: The notes to the financial statements are an integral part of the financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information: This Management's Discussion and Analysis and the Comparison to Budget Schedule (see page 18) represent financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the financial statements, and notes (referred to as "the basic financial statements").

Other Supplementary Information: This part of the annual report (starting on page 20) includes optional financial information. This other supplemental financial information is provided to address certain specific needs of various users of the District's annual report.

**CLEAR LAKE SANITARY DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2007**

BASIS OF ACCOUNTING

The District has elected to present its financial statements on a cash basis of accounting. The cash basis of accounting is a basis other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses and their related assets and liabilities. Under the District's cash basis of accounting, revenues and expenses are recorded when they result from cash transactions. As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the District as a Whole

The District's Reporting Entity Presentation

- This annual report includes all activities for which the Clear Lake Sanitary District's Board of Trustees is fiscally responsible.

The Statement of Net Assets-Cash Basis and the Statement of Cash Receipts, Cash Disbursements and Changes in Cash Balances

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse as a result of the year's activities?" The Statement of Cash Receipts, Cash Disbursements and Changes in Cash Balances reports information about the District as a whole and about its activities in a way that helps answer this question. This statement includes the activities of the sewer system. These activities are financed primarily by user charges.

This statement reports the District's cash basis net assets and change in them. Keeping in mind the limitations of the cash basis of accounting, you can think of the District's cash basis net assets as one way to measure the District's financial health of financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, to assess the overall health of the District.

In the financial statements which include a statement of cash receipts, cash disbursements and changes in cash balances, we divide the District into eight funds:

Revenue Fund – All of the District's revenue begins in this fund and is then distributed to the various funds according to bond requirements. The District's Board has designated \$125,000 to remain in this fund after all other revenue is distributed.

Operations and Maintenance Fund - Most of the District's basic services are reported here, which include providing sanitary sewer lines and facilities for the safe treatment and disposal of wastewater for property owners in the District. Revenue is transferred to this fund each month to cover monthly operations and maintenance expenses.

Sinking Fund – Revenue is transferred to this fund to cover the principal and interest payments on the Sewer Revenue Bonds. Each month one sixth of the next interest payment due and one twelfth of the next principal payment due must be deposited into this fund.

Reserve Fund – This fund balance must maintain an amount equal to the interest and principal payments due on the Sewer Revenue Bonds for the next year.

Capital Improvement Fund – The amount in this fund balance represents funds that are available to cover upcoming capital improvements. The remaining revenue or deficit is distributed to this fund after all other fund balance requirements have been met.

Debt Service Fund - Revenue is transferred to this fund to cover the principal and interest payments on the District's General Obligation Bonds. Each month one sixth of the next interest payment due and one twelfth of the next principal payment due must be deposited into this fund.

Replacement Fund – This fund balance represents an amount set aside by the District's Board to cover future replacement costs of equipment.

County Sewer Line Fund - This fund is utilized to account for the receipts and disbursements related to County Sewer Lines.

Government-Wide Financial Analysis

The District's total cash basis net assets increased by \$368,230 from a year ago. The analysis that follows focuses on the changes in cash balances. The cost of all activities this year was \$2,498,424. These costs were financed by total receipts of \$2,866,655, which consisted primarily of \$1,550,068 of sewer rental and connection fees, and \$775,210 of real estate and personal property taxes.

INDIVIDUAL MAJOR FUND ANALYSIS

The District reported total net assets of \$2,095,392 at June 30, 2007, an increase of \$368,230 from beginning year's total net assets of \$1,727,162. The following are the major reasons for the changes in net assets in the various funds.

The Replacement Fund Balance increased \$276,877 from the prior year due primarily to funds set aside by the Board to cover future replacement costs.

The Capital Improvement Fund Balance increased \$70,820 from the prior year due to a decrease in capital expenditures.

DEBT ADMINISTRATION

At June 30, 2007, the District had \$8,260,000 in bonds outstanding, compared to \$8,953,000 last year. Details are as follows:

	<u>2007</u>	<u>June 30</u> <u>2006</u>
Outstanding Debt at Year End		
Project Construction – Iowa State Revolving Fund – Series 1996	\$ 3,525,000	\$ 3,808,000
Sewer extensions and related improvements – Series 1999	50,000	75,000
Refinancing/refunding and sewer improvements – Series 2005	<u>4,685,000</u>	<u>5,070,000</u>
Total	<u>\$ 8,260,000</u>	<u>\$ 8,953,000</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This report is designed to provide our property owners in the District, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Clear Lake Sanitary District at (641) 357-2019.

FINANCIAL STATEMENTS

CLEAR LAKE SANITARY DISTRICT
STATEMENT OF NET ASSETS --- CASH BASIS
June 30, 2007

ASSETS

Cash		\$ 484,730
Certificates of deposit		<u>1,610,662</u>
TOTAL ASSETS		<u>\$ 2,095,392</u>

NET ASSETS

Unrestricted:		
Operations and maintenance fund	\$	-
Board designated:		
Revenue fund		125,000
Capital improvement fund		(373,393)
Replacement fund		<u>1,837,240</u>
Total unrestricted net assets		1,588,847
Restricted:		
Sinking fund		36,245
Reserve fund		434,943
Debt service fund		15,910
County sewer line fund		<u>19,447</u>
Total restricted net assets		<u>506,545</u>
TOTAL NET ASSETS		<u>\$ 2,095,392</u>

See accompanying notes to financial statements.

CLEAR LAKE SANITARY DISTRICT
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN CASH BALANCES --- CASH BASIS
For the Year Ended June 30, 2007

	Revenue Fund	Operations & Maintenance Fund	Sinking Fund	Reserve Fund	Capital Improvement Fund	Debt Service Fund	Replacement Fund	County Sewer Line Fund	Total (Memorandum Only)
RECEIPTS									
Real estate and personal property taxes	\$ 775,210	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 775,210
Sewer rentals and connection fees	1,550,068	-	-	-	-	-	-	-	1,550,068
Interest on investments	66,272	-	-	-	-	-	-	-	66,272
Other	276,309	-	-	-	-	-	-	-	276,309
Alliant project	198,796	-	-	-	-	-	-	-	198,796
Total receipts	<u>2,866,655</u>								<u>2,866,655</u>
Transfers in	-	1,065,745	434,242	2,669	410,487	596,900	336,547	20,065	<u>2,866,655</u>
Total receipts and transfers in	<u>2,866,655</u>	<u>1,065,745</u>	<u>434,242</u>	<u>2,669</u>	<u>410,487</u>	<u>596,900</u>	<u>336,547</u>	<u>20,065</u>	<u>5,733,310</u>
DISBURSEMENTS									
General and administrative	-	466,754	-	-	-	-	-	-	466,754
Operations and maintenance	-	582,384	-	-	32,910	-	59,670	618	675,582
Capital outlay	-	-	-	-	306,757	-	-	-	306,757
Other	-	22,857	-	-	-	-	-	-	22,857
Principal, interest, and fees	-	-	434,178	-	-	592,297	-	-	1,026,475
Total disbursements	-	<u>1,071,995</u>	<u>434,178</u>	-	<u>339,667</u>	<u>592,297</u>	<u>59,670</u>	<u>618</u>	<u>2,498,425</u>
Transfers out	<u>2,866,655</u>	-	-	-	-	-	-	-	<u>2,866,655</u>
Total disbursements and transfers out	<u>2,866,655</u>	<u>1,071,995</u>	<u>434,178</u>	-	<u>339,667</u>	<u>592,297</u>	<u>59,670</u>	<u>618</u>	<u>5,365,080</u>
Excess (deficiency) of receipts over disbursements	-	(6,250)	64	2,669	70,820	4,603	276,877	19,447	368,230
CASH BALANCES, beginning of year	-	(594,735)	-	-	(1,384,152)	2,145,686	1,560,363	-	1,727,162
Prior period adjustment	125,000	600,985	36,181	432,274	939,939	(2,134,379)	-	-	-
CASH BALANCES, beginning of year, restated	<u>125,000</u>	<u>6,250</u>	<u>36,181</u>	<u>432,274</u>	<u>(444,213)</u>	<u>11,307</u>	<u>1,560,363</u>	-	<u>1,727,162</u>
CASH BALANCES, end of year	<u>\$ 125,000</u>	<u>\$ -</u>	<u>\$ 36,245</u>	<u>\$ 434,943</u>	<u>\$ (373,393)</u>	<u>\$ 15,910</u>	<u>\$ 1,837,240</u>	<u>\$ 19,447</u>	<u>\$ 2,095,392</u>

See accompanying notes to financial statements.

CLEAR LAKE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Clear Lake Sanitary District is incorporated under the laws of the State of Iowa. The District operates under a Board of Trustees consisting of five members. The District is an independent taxing authority organized under Chapter 358 of the Iowa Code and has the ability to issue debt. Therefore, its financial statements are not included in the financial statements of the City of Clear Lake. The purpose of the District is to safely collect, treat, and properly dispose of wastewater generated by businesses and residents in an effort to protect the environment with an emphasis on lake water quality. Its territory includes the City of Clear Lake, Iowa, and Ventura, Iowa and the unincorporated area surrounding the lake, and is located in Cerro Gordo County.

Reporting Entity

For financial reporting purposes, the District has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The District 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 District are such that exclusion would cause the District'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 District 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 District. The District has no component units which meet the Governmental Accounting Standards Board criteria.

Measurement Focus and Basis of Accounting

The District maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the District 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 District in accordance with generally accepted accounting principles for municipal enterprises.

Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts. These accounts comprise its assets, net assets, receipts and disbursements. The various funds are classified as follows in the financial statements:

Revenue Fund

All of the District's revenue begins in this fund and is then distributed to the various funds according to bond requirements. The District's Board has designated \$125,000 to remain in this fund after all other revenue is distributed.

Operations and Maintenance Fund

Most of the District's basic services are reported here, which include providing sanitary sewer lines and facilities for the safe treatment and disposal of wastewater for property owners in the District. Revenue is transferred to this fund each month to cover monthly operations and maintenance expenses.

**CLEAR LAKE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

Sinking Fund

Revenue is transferred to this fund to cover the principal and interest payments on the Sewer Revenue Bonds. Each month one sixth of the next interest payment due and one twelfth of the next principal payment due must be deposited into this fund.

Reserve Fund

This fund balance must maintain an amount equal to the interest and principal payments due on the Sewer Revenue Bonds for the next year.

Capital Improvement Fund

The amount in this fund balance represents funds that are available to cover upcoming capital improvements. The remaining revenue or deficit is distributed to this fund after all other fund balance requirements have been met.

Debt Service Fund

Revenue is transferred to this fund to cover the principal and interest payments on the District's General Obligation Bonds. Each month one sixth of the next interest payment due and one twelfth of the next principal payment due must be deposited into this fund.

Replacement Fund

This fund balance represents an amount set aside by the District's Board to cover future replacement costs of equipment.

County Sewer Line Fund

This fund is utilized to account for the receipts and disbursements related to County Sewer Lines.

Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees 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.

Total (Memorandum Only)

The total column on the statement of cash receipts, cash disbursements and changes in cash balances is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2. CASH AND INVESTMENTS

The District's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or 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.

**CLEAR LAKE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

The District 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 Board of Trustees; 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 drainage district.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end.

The District's investments at June 30, 2007 are as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Certificates of Deposit	\$1,610,662	\$1,610,662
Total investments	<u>\$1,610,662</u>	<u>\$1,610,662</u>

NOTE 3. NOTE RECEIVABLE

On June 1, 2006, the District entered into an agreement with the City of Clear Lake to share the expenses of a project. The District incurred all the costs and the City of Clear Lake agreed to reimburse the District in four annual installments at a fixed interest rate of 3.82%. The note's interest and principal payments are due from the City of Clear Lake as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 133,493	\$ 15,890	\$ 149,383
2009	138,592	10,791	149,383
2010	<u>143,887</u>	<u>5,496</u>	<u>149,383</u>
Totals	<u>\$ 415,972</u>	<u>\$ 32,177</u>	<u>\$ 448,149</u>

NOTE 4. BONDS PAYABLE

General obligation bonds and revenue bonds have been issued by Clear Lake Sanitary District to improve the sanitary sewer plant and collection system. These bonds are required to be fully paid within 9-20 years from the date of issue and are backed by the full faith and credit of the Clear Lake Sanitary District.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 720,000	\$ 307,436	\$ 1,027,436
2009	746,000	282,199	1,028,199
2010	743,000	256,006	999,006
2011	771,000	228,918	999,918
2012	799,000	200,454	999,454
Thereafter	<u>4,481,000</u>	<u>517,675</u>	<u>4,998,675</u>
Totals	<u>\$8,260,000</u>	<u>\$1,792,688</u>	<u>\$10,052,688</u>

**CLEAR LAKE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

A summary of the terms of the various general obligation bond issues are as follows:

<u>Obligation</u>	<u>Date of Issue</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Outstanding at June 30, 2007</u>
Project Construction – Iowa State Revolving Fund – Series 1996	2/25/97	6/1/17	3.92%	\$ 3,525,000
Sewer extensions and related improvements – Series 1999	4/1/99	12/1/08	4.00% - 4.60%	50,000
Refinancing/refunding and sewer improvements – Series 2005	5/31/05	6/1/17	3.05% - 4.10%	<u>4,685,000</u>
Total outstanding at June 30, 2007				<u>\$ 8,260,000</u>

The General Obligation Capital Loan Notes, Series 2005, maturing after June 1, 2011, may be called for redemption by the Issuer and paid before maturity on said date, or on any date thereafter, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot, upon terms of par plus accrued interest to date of call.

NOTE 5. BUDGETS AND BUDGETARY ACCOUNTING

The budgetary comparison and related disclosures are reported as required supplementary information. During the year ended June 30, 2007, disbursements were under the total budgeted amounts by \$307,027.

NOTE 6. PENSION AND RETIREMENT BENEFITS

The District 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 District is required to contribute 5.75% of annual covered payroll for the year ended June 30, 2007. Contribution requirements are established by state statute. The District's contribution to IPERS for the year ended June 30, 2007 was \$24,320, equal to the required contribution for the year.

NOTE 7. LONG-TERM CONTRACT

The District entered into a contract with Alliant Energy (IPL) on July 25, 2003 for water use and discharge services for the term of 25 years, subject to right of termination by both parties. IPL shall have the option to extend the term of this agreement for a renewable term of 10 years from the expiration of the initial term. IPL paid for the direct costs associated with the design, procurement, and construction of certain improvements to the District's Wastewater Treatment System. IPL makes monthly payments to the District, which began at \$18,000 per month and will adjust annually on the anniversary date by the percent increase or decrease in the Consumer Price Index, All Urban Consumers, U.S. City Average (CPI-U). Total received on the contract for the year ended June 30, 2007 was \$198,796.

**CLEAR LAKE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

NOTE 8. CAPITAL ASSETS

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

	Balance Beginning of Year	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	Balance End of Year
Capital assets not being depreciated:					
Land	\$ 58,532	\$ ---	\$ ---	\$ ---	\$ 58,532
Sewer plant	13,550,818	21,058	---	---	13,571,876
Sewers	2,005,385	---	---	---	2,005,385
Laterals	180,641	---	---	---	180,641
Force Main/Lift station	14,452,514	290,520	---	(671,760)	14,071,274
Other equipment	686,741	49,332	(106,000)	---	630,073
Equity basin	<u>612,166</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>612,166</u>
Total capital assets not being depreciated	<u>\$31,546,797</u>	<u>\$ 360,910</u>	<u>\$(106,000)</u>	<u>\$(671,760)</u>	<u>\$31,129,947</u>

NOTE 9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past year.

NOTE 10. ACCOUNTING CHANGES

Effective July 1, 2004, the District adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The adoption of these pronouncements had no financial impact on the District's financial statements.

NOTE 11. PRIOR PERIOD ADJUSTMENT

In prior years, certain revenues and disbursements were incorrectly allocated between funds. As a result, the July 1, 2006 net assets of each fund have been restated.

NOTE 12. COMPENSATED ABSENCES

The District's employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use or for payment upon termination, retirement or death. Employees are also allowed to bank overtime as comp time to be used at a later date. These accumulations are not recognized as disbursements by the District until used or paid. The District's approximate liability for earned vacation and comp time at June 30, 2007 was \$16,900. This liability has been computed based on rates of pay in effect at June 30, 2007.

REQUIRED SUPPLEMENTARY INFORMATION

CLEAR LAKE SANITARY DISTRICT
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH BALANCES --- COMPARISON TO BUDGET
For the Year Ended June 30, 2007

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
RECEIPTS			
Revenue fund			
Real estate and property taxes	\$ 775,210	\$ 695,051	\$ 80,159
Sewer rentals and connection fees	1,550,068	1,604,221	(54,153)
Interest on investments	66,272	35,000	31,272
Other	276,309	241,200	35,109
Alliant project	198,796	230,000	(31,204)
Total receipts	<u>2,866,655</u>	<u>2,805,472</u>	<u>61,183</u>
DISBURSEMENTS			
Operations & Maintenance fund			
General and administrative	466,754	489,232	(22,478)
Operations and maintenance	582,384	568,100	14,284
Other	22,857	-	22,857
Sinking fund			
Principal, interest, and fees	434,178	434,178	-
Capital Improvement fund			
Operations and maintenance	32,910	-	32,910
Capital outlay	306,757	399,644	(92,887)
Debt Service fund			
Principal, interest, and fees	592,297	591,998	299
Replacement fund			
Operations and maintenance	59,670	306,000	(246,330)
County Sewer Line fund			
Operations and maintenance	618	16,300	(15,682)
Total disbursements	<u>2,498,425</u>	<u>2,805,452</u>	<u>(307,027)</u>
Net amounts	368,230	20	368,210
BALANCES, beginning of year	<u>1,727,162</u>	<u>4,402,816</u>	<u>(2,675,654)</u>
BALANCES, end of year	<u>\$ 2,095,392</u>	<u>\$ 4,402,836</u>	<u>\$ (2,307,444)</u>

See Independent Auditor's Report

OTHER SUPPLEMENTARY INFORMATION

**CLEAR LAKE SANITARY DISTRICT
SUMMARY OF CASH AND INVESTMENT BALANCES
June 30, 2007**

SUMMARY OF JUNE 30, 2007 BALANCE

Clear Lake Bank & Trust	
Checking account	\$ (4,966)
Savings account	489,446
 Manufacturers Bank & Trust	
Certificate of deposit	1,000,000
 Farmers State Bank	
Certificate of deposit	610,662
 Cash on hand	<u>250</u>
 Total	<u><u>\$ 2,095,392</u></u>

See Independent Auditor's Report

**CLEAR LAKE SANITARY DISTRICT
SCHEDULE OF BOND & INTEREST TRANSACTIONS
For the Year Ended June 30, 2007**

Obligation	Interest Rates	Date of Issue	Amount of Original Issue	Outstanding June 30, 2006
Series 1996	3.92%	2/25/97	11,100,000	3,808,000
Series 1999	4.0-4.6%	4/1/99	205,000	75,000
Series 2005	3.05-4.1%	5/31/05	5,445,000	5,070,000
			<u>\$ 16,750,000</u>	<u>\$ 8,953,000</u>

See Independent Auditor's Report

**CLEAR LAKE SANITARY DISTRICT
SCHEDULE OF BOND & INTEREST TRANSACTIONS
For the Year Ended June 30, 2007**

Issued During the Year	Redeemed During the Year	Outstanding June 30, 2007	Interest paid in 2007
-	283,000	3,525,000	149,274
-	25,000	50,000	2,850
-	385,000	4,685,000	179,048
<u>\$ -</u>	<u>\$ 693,000</u>	<u>\$ 8,260,000</u>	<u>\$ 331,172</u>

See Independent Auditor's Report

**CLEAR LAKE SANITARY DISTRICT
SCHEDULE OF INVESTMENT TRANSACTIONS
June 30, 2007**

	<u>Balance July 1, 2006</u>	<u>Purchased</u>	<u>Redeemed</u>	<u>Balance June 30, 2007</u>	<u>Interest Received</u>
Money market accounts	\$ 32,314	\$ -	\$ 32,314	\$ -	\$ 3,476
Certificates of deposit	<u>1,400,000</u>	<u>1,610,662</u>	<u>1,400,000</u>	<u>1,610,662</u>	<u>54,498</u>
Totals	<u>\$ 1,432,314</u>	<u>\$ 1,610,662</u>	<u>\$ 1,432,314</u>	<u>\$ 1,610,662</u>	<u>\$ 57,974</u>

See Independent Auditor's Report

**CLEAR LAKE SANITARY DISTRICT
SCHEDULE OF CASH TRANSACTIONS --- REVENUE FUND
For the Year Ended June 30, 2007**

RECEIPTS

Real estate and personal property taxes	\$ 775,210
Sewer rentals and connection fees	1,550,068
Interest on investments	66,272
Other	276,309
Alliant project	198,796
Total receipts	2,866,655

DISBURSEMENTS

Transfers out	2,866,655
Total transfers out	2,866,655

Excess (deficiency) of receipts over disbursements -

BALANCE, beginning of year -

Prior period adjustment 125,000

BALANCE, beginning of year, restated 125,000

BALANCE, end of year \$ 125,000

See Independent Auditor's Report

CLEAR LAKE SANITARY DISTRICT
SCHEDULE OF CASH TRANSACTIONS --- OPERATIONS & MAINTENANCE FUND
For the Year Ended June 30, 2007

RECEIPTS

Transfers in	\$ 1,065,745
Total transfers in	<u>1,065,745</u>

DISBURSEMENTS

General and administrative	466,754
Operations and maintenance	582,384
Other	<u>22,857</u>
Total disbursements	<u>1,071,995</u>

Excess (deficiency) of receipts over disbursements	(6,250)
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BALANCE, beginning of year	(594,735)
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Prior period adjustment	<u>600,985</u>
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BALANCE, beginning of year, restated	<u>6,250</u>
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BALANCE, end of year	<u><u>\$ -</u></u>
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See Independent Auditor's Report

**CLEAR LAKE SANITARY DISTRICT
 SCHEDULE OF CASH TRANSACTIONS --- SINKING FUND
 For the Year Ended June 30, 2007**

RECEIPTS

Transfers in	\$ 434,242
Total transfers in	434,242

DISBURSEMENTS

Principal, interest, and fees	434,178
Total disbursements	434,178

Excess (deficiency) of receipts over disbursements	64
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BALANCE, beginning of year	-
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Prior period adjustment	36,181
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BALANCE, beginning of year, restated	36,181
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BALANCE, end of year	\$ 36,245
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See Independent Auditor's Report

**CLEAR LAKE SANITARY DISTRICT
 SCHEDULE OF CASH TRANSACTIONS --- RESERVE FUND
 For the Year Ended June 30, 2007**

RECEIPTS		
Transfers in		\$ 2,669
Total receipts and transfers in		<u>2,669</u>
DISBURSEMENTS		
Total disbursements		<u>-</u>
Excess (deficiency) of receipts over disbursements		2,669
BALANCE, beginning of year		-
Prior period adjustment		<u>432,274</u>
BALANCE, beginning of year, restated		<u>432,274</u>
BALANCE, end of year		<u><u>\$ 434,943</u></u>

See Independent Auditor's Report

**CLEAR LAKE SANITARY DISTRICT
 SCHEDULE OF CASH TRANSACTIONS --- CAPITAL IMPROVEMENT FUND
 For the Year Ended June 30, 2007**

RECEIPTS	
Transfers in	\$ 410,487
Total transfers in	<u>410,487</u>
 DISBURSEMENTS	
Operations and maintenance	32,910
Capital outlay	306,757
Total disbursements	<u>339,667</u>
Excess (deficiency) of receipts over disbursements	70,820
 BALANCE, beginning of year	 (1,384,152)
Prior period adjustment	<u>939,939</u>
 BALANCE, beginning of year, restated	 <u>(444,213)</u>
 BALANCE, end of year	 <u>\$ (373,393)</u>

See Independent Auditor's Report

**CLEAR LAKE SANITARY DISTRICT
 SCHEDULE OF CASH TRANSACTIONS --- DEBT SERVICE FUND
 For the Year Ended June 30, 2007**

RECEIPTS	
Transfers in	\$ 596,900
Total transfers in	<u>596,900</u>
 DISBURSEMENTS	
Principal, interest, and fees	<u>592,297</u>
Total disbursements	<u>592,297</u>
 Excess (deficiency) of receipts over disbursements	 4,603
 BALANCE, beginning of year	 2,145,686
 Prior period adjustment	 <u>(2,134,379)</u>
 BALANCE, beginning of year, restated	 <u>11,307</u>
 BALANCE, end of year	 <u><u>\$ 15,910</u></u>

See Independent Auditor's Report

**CLEAR LAKE SANITARY DISTRICT
SCHEDULE OF CASH TRANSACTIONS --- REPLACEMENT FUND
For the Year Ended June 30, 2007**

RECEIPTS	
Transfers in	\$ 336,547
Total transfers in	<u>336,547</u>
 DISBURSEMENTS	
Operations and maintenance	<u>59,670</u>
Total disbursements	<u>59,670</u>
Excess (deficiency) of receipts over disbursements	276,877
BALANCE, beginning of year	1,560,363
Prior period adjustment	<u>-</u>
BALANCE, beginning of year, restated	<u>1,560,363</u>
BALANCE, end of year	<u><u>\$ 1,837,240</u></u>

See Independent Auditor's Report

CLEAR LAKE SANITARY DISTRICT
SCHEDULE OF CASH TRANSACTIONS --- COUNTY SEWER LINE FUND
For the Year Ended June 30, 2007

RECEIPTS

Transfers in	\$ 20,065
Total transfers in	<u>20,065</u>

DISBURSEMENTS

Operations and maintenance	<u>618</u>
Total disbursements	<u>618</u>

Excess (deficiency) of receipts over disbursements 19,447

BALANCE, beginning of year -

Prior period adjustment -

BALANCE, beginning of year, restated -

BALANCE, end of year \$ 19,447

See Independent Auditor's Report

CLEAR LAKE SANITARY DISTRICT
STATEMENT OF CASH DISBURSEMENTS
ACTUAL & BUDGET
For the Year Ended June 30, 2007

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
DISBURSEMENTS			
Operations & Maintenance fund			
General and administrative			
Salaries	\$ 181,398	\$ 203,766	\$ (22,368)
Employer's share of FICA & IPERS	58,110	56,516	1,594
Unemployment insurance	432	1,200	(768)
Health insurance	84,817	100,000	(15,183)
Office supplies	35,984	37,000	(1,016)
Legal fees	24,425	2,000	22,425
Accounting fees	34,443	15,500	18,943
Licensing & sales tax	420	250	170
Printing	4,047	2,500	1,547
Insurance & bonds	16,996	45,000	(28,004)
Dues & subscriptions	3,368	9,500	(6,132)
Trustee fees	821	2,500	(1,679)
Employee reimbursement	6,795	6,000	795
Telephone expense	5,159	5,000	159
Penalties	634	-	634
Education expense	8,905	2,500	6,405
Total general and administrative disbursements	<u>466,754</u>	<u>489,232</u>	<u>(22,478)</u>
Operations and maintenance			
Building repairs	33,961	30,000	3,961
Sewer maintenance	2,903	30,000	(27,097)
Open ditch	-	2,500	(2,500)
Electricity	145,005	150,000	(4,995)
Sludge disposal	20,400	10,000	10,400
Natural gas	25,961	20,000	5,961
Fuel	8,682	5,000	3,682
Lubricants	2,202	1,500	702
Programming	6,644	-	6,644
Vehicle expense	11,221	15,100	(3,879)
Plant supplies	11,250	20,000	(8,750)
Laboratory supplies	48,497	60,000	(11,503)
Uniforms	3,564	6,000	(2,436)
Salaries	262,094	218,000	44,094
Total operations and maintenance disbursements	<u>582,384</u>	<u>568,100</u>	<u>14,284</u>
Other			
Miscellaneous expenses	22,857	-	22,857
Total other disbursements	<u>22,857</u>	<u>-</u>	<u>22,857</u>
Total operations and maintenance fund disbursements	<u>1,071,995</u>	<u>1,057,332</u>	<u>14,663</u>

See Independent Auditor's Report

**CLEAR LAKE SANITARY DISTRICT
STATEMENT OF CASH DISBURSEMENTS
ACTUAL & BUDGET
For the Year Ended June 30, 2007**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Sinking fund			
Principal, interest, and fees			
Principal, interest, and fees	434,178	434,178	-
Total principal, interest, and fees disbursements	<u>434,178</u>	<u>434,178</u>	<u>-</u>
Total sinking fund disbursements	<u>434,178</u>	<u>434,178</u>	<u>-</u>
Capital Improvement fund			
Operations and maintenance			
Equipment replacement	32,910	-	32,910
Total operations and maintenance disbursements	<u>32,910</u>	<u>-</u>	<u>32,910</u>
Capital outlay			
Capital improvements	306,757	399,644	(92,887)
Total capital outlay disbursements	<u>306,757</u>	<u>399,644</u>	<u>(92,887)</u>
Total capital improvement fund disbursements	<u>339,667</u>	<u>399,644</u>	<u>(59,977)</u>
Debt Service fund			
Principal, interest, and fees			
Principal, interest, and fees	592,297	591,998	299
Total principal, interest, and fees disbursements	<u>592,297</u>	<u>591,998</u>	<u>299</u>
Total debt service fund disbursements	<u>592,297</u>	<u>591,998</u>	<u>299</u>
Replacement fund			
Operations and maintenance			
Equipment replacement	59,670	306,000	(246,330)
Total operations and maintenance disbursements	<u>59,670</u>	<u>306,000</u>	<u>(246,330)</u>
Total replacement fund disbursements	<u>59,670</u>	<u>306,000</u>	<u>(246,330)</u>
County Sewer Line fund			
Operations and maintenance			
Equipment replacement	618	16,300	(15,682)
Total operations and maintenance disbursements	<u>618</u>	<u>16,300</u>	<u>(15,682)</u>
Total county sewer line fund disbursements	<u>618</u>	<u>16,300</u>	<u>(15,682)</u>
Total disbursements	<u>\$ 2,498,425</u>	<u>\$ 2,805,452</u>	<u>\$ (307,027)</u>

See Independent Auditor's Report

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

The Board of Trustees
Clear Lake Sanitary District
Clear Lake, Iowa

We have audited the accompanying financial statement of Clear Lake Sanitary District as of and for the year ended June 30, 2007, and have issued our report thereon dated February 8, 2008. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clear Lake Sanitary District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Clear Lake Sanitary District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Clear Lake Sanitary District's internal control over financial reporting.

Our 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, we did identify certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of a 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 Clear Lake Sanitary District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood that a misstatement of the Clear Lake Sanitary District's financial statements that is more than inconsequential will not be prevented or detected by the Clear Lake Sanitary District's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies 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 that a material misstatement of the financial statements will not be prevented or detected by the Clear Lake Sanitary District's internal control.

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Webster City, IA
515-832-4783

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 and, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clear Lake Sanitary District's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that is required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Clear Lake Sanitary District'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 Clear Lake Sanitary District. 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.

Clear Lake Sanitary District's written responses to finding identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Clear Lake Sanitary District's responses, we did not audit Clear Lake Sanitary District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the members and customers of the Clear Lake Sanitary District and other parties to whom the Clear Lake Sanitary District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Clear Lake Sanitary District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Potter & Brant, P.L.C.

Potter & Brant, P.L.C.
Certified Public Accountants
Clear Lake, Iowa
February 8, 2008

**CLEAR LAKE SANITARY DISTRICT
SCHEDULE OF FINDINGS
Year Ended June 30, 2007**

Part I - Findings Related to the Financial Statements

Significant Deficiencies:

Errors in Filing IRS Forms: Various forms filed with the Internal Revenue Service were improperly completed or filed late. During the audit fieldwork, we noted several instances of errors in completing and filing Form 941:

- FICA taxes were withheld on an employee's car allowance, but were not paid to the IRS.
- Social Security taxes were withheld in excess of the 2007 annual limit on an employee.
- On two separate occasions, FICA payments were paid late and penalties and interest were incurred by the District.

We noted that an individual's Form W-2 was calculated improperly on their car allowance. Also, errors were found in the preparation of Form 1099's. Two 1099's were for an incorrect amount and one 1099 was not issued that should have been.

Recommendation – We recommend that the District take whatever steps are necessary to correct these errors and that controls be implemented to insure that these errors do not occur again.

Response – The District will contract with a qualified accounting firm to have an Accounting Policy and Procedure Manual written and will address these recommendations.

Conclusion – Response accepted.

Material Weaknesses:

1. **Segregation of Duties** – During our review of internal controls, the existing control activities are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the District's financial statements. Generally, one individual has control over receipts and disbursements, including account billings, collecting, depositing, posting, check signing and reconciling, for which no compensating controls exist.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances. Current personnel should be utilized to provide additional control through review of financial transactions and reconciliations. Such reviews should be performed by independent persons to the extent possible and should be evidenced by initials or signature of the reviewer and the date of the review.

Response – The District will contract with a qualified accounting firm to have an Accounting Policy and Procedure Manual written and will address these recommendations.

Conclusion – Response accepted.

**CLEAR LAKE SANITARY DISTRICT
SCHEDULE OF FINDINGS
Year Ended June 30, 2007**

2. **Management Lacks Qualifications** – The office manager lacks the qualifications and training to fulfill her assigned responsibilities. During our audit fieldwork for the current year and for the two preceding audit years, it was noted that bank statements were not reconciled to the general ledger and fund balances were not accurately reflected. Reconciliations of significant accounts were not performed. This individual, who is responsible for the accounting and reporting functions, lacks the skills and knowledge to apply generally accepted accounting principles in recording the District's financial transactions or preparing its financial statements.

Recommendation – We recommend that the District take whatever steps necessary to insure that the bank statements and fund balances are reconciled and accurately adjusted on a monthly basis.

Response – The District will employ qualified person(s) that can reconcile bank statements and fund balances monthly and in an accurate manner.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were reported.

Part II - Findings Related to Required Statutory Reporting

OFFICIAL DEPOSITORIES

No findings related to official depositories were noted.

ENTERTAINMENT EXPENSES

No disbursements of District money for entertainment expenses were noted.

TRAVEL EXPENSE

No disbursements of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

BUSINESS TRANSACTIONS

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

BOND COVERAGE

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

BOARD MINUTES

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

February 8, 2008

To the Board of Trustees
Clear Lake Sanitary District
Clear Lake, Iowa

Based on our audit of the financial statements of the Clear Lake Sanitary District (District) as of June 30, 2007, we noted the following items which are listed for your consideration:

1. BANK RECONCILIATIONS

Comment: Bank reconciliations were not reconciled to the general ledger, even after we provided extensive assistance in this process. Many errors were noted in the recording of transactions, especially related to the sweep account.

Recommendation: We consider that the inability of the current personnel to reconcile the bank statement to the general ledger constitutes a material weakness in the District's internal controls, which would indicate a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected. We recommend that the District take whatever steps necessary to insure that these reconciliations are done on a monthly basis.

Response: The District will employ qualified person(s) that can perform the bank reconciliation process monthly and in an accurate manner.

2. FUND BALANCES

Comment: Fund balances were not properly stated at year end and the employee in charge of this function lacked the understanding on how to accurately complete the necessary steps.

Recommendation: We consider that the inability of the current personnel to determine the flow of transactions to the various funds constitutes a material weakness in the District's internal controls, which would indicate a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected. We recommend that the District take whatever steps necessary to insure that the fund balances are reconciled and accurately adjusted on a monthly basis.

Clear Lake, IA
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Response: The District will employ qualified person(s) that can reconcile fund balances monthly and in an accurate manner.

3. FINANCIAL STATEMENTS

Comment: Currently, the Office Manager is required to provide monthly financial information to the board. These reports are not consistently provided to the board and are often times incorrect.

Recommendation: We recommend that internal monthly financial statements be timely and accurately prepared in order to assist the Board of Trustees in making financial decisions. Some examples of statements that should be provided are: Balance Sheet; Statement of Cash Receipts, Cash Disbursements and Changes in Cash Balances compared with Budget and prior year actual balances.

Response: The District will employ qualified person(s) that can prepare monthly financial statements in a timely and accurate manner.

4. BOARD APPROVED INVOICES

Comment: During the audit, while reviewing the book of Board approved minutes, we noted that several of the lists of "approved invoices" that were included with the minutes were not actually the lists provided to the Board. The lists that were included were printed several months after the Board meeting had occurred.

Recommendation: We recommend that the Board minutes have the invoices that are to be paid typed in the body of the minutes instead of an attached listing, or the attached listing must be initialed and dated by the Board President or Treasurer.

Response: The District will have prepared an accounting and internal control policy manual that will outline the procedures for attaching invoices to board meeting minutes.

5. PAYROLL TESTING

Comment: While testing payroll, we noted several errors in calculating hours from the employees' timecards. Overtime was often calculated incorrectly. For example, if an employee worked 5 minutes of overtime each day of the pay period, that employee was not receiving overtime pay for time worked. The District's policy on paying overtime on small increments of time worked is not stated in the employee handbook. Employees are also allowed to bank overtime as compensatory time off (comp time). If comp time is banked there is no record kept in the payroll system of how much time was banked at a certain date.

Recommendation: We recommend that the District revise its policy to more specifically address what constitutes as overtime. Also, a system needs to be established to track comp time so that there is a record of how much comp time is being banked and used.

Response: The District will revise the Overtime section of the Employee Handbook accordingly to be more specific on payment increments and will expand the payroll software system to include records of employee banked comp time.

6. MATCHING OF INVOICES

Comment: While performing procedures to test internal controls, we found that invoices were not compared or attached to supporting documentation.

Recommendation: We recommend that all invoices be compared and attached to supporting documentation, whether it be timecards, purchase orders, shipping orders, etc., to help eliminate the risk of fraud, duplicate payment, etc.

Response: The District will have prepared an accounting and internal control policy manual that will outline the procedures for matching invoices.

7. VOIDED CHECKS

Comment: During our audit, we noted that some checks that were voided could not be located.

Recommendation: Voided checks should be marked "Void", the signatures cut off the check, and then retained in a secure file.

Response: The District will have prepared an accounting and internal control policy manual that will outline the procedures for voiding and retaining voided checks.

8. EMPLOYEE MILEAGE REIMBURSEMENT

Comment: During our testing of cash disbursements, we noted that an employee was reimbursed the incorrect amount for the mileage rate.

Recommendation: We recommend that the District watch for changes in the Internal Revenue Service's approved mileage reimbursement rate and pay employees accordingly.

Response: The District will reimburse mileage at the rate approved by the Internal Revenue Service.

9. INVOICE DOCUMENTATION

Comment: During our testing of cash disbursements, we noted that some invoices could not be located and others lacked appropriate documentation.

Recommendation: We recommend that all disbursements have the required supporting documentation and be approved by appropriate level of management.

Response: The District will have prepared an accounting and internal control policy manual that will outline invoice documentation procedures.

10. FICA TAXES

Comment: FICA taxes were withheld on employee's car allowance but not paid to the Internal Revenue Service, which resulted in a Form 941 being filed improperly.

Recommendation: We recommend that FICA taxes that are withheld be timely deposited and the Form 941's be filed properly. We also recommend that the incorrect Form 941 that we noted, be amended.

Response: The District will have prepared an accounting and internal control policy manual that will outline withheld FICA tax deposit procedures and also filing procedures for Form 941. The District will amend Form 941.

11. EXCESS SOCIAL SECURITY TAXES WITHHELD

Comment: Social Security taxes were withheld over the annual limit for 2007 on one employee.

Recommendation: We recommend whatever steps are necessary to correct this error be made and that steps be implemented to insure this error does not occur again.

Response: The District will have prepared an accounting and internal control policy manual that will outline the procedures for payroll withholdings and verify payroll software supports required procedures.

12. LATE FICA PAYMENTS

Comment: During our audit, two separate instances were noted where FICA payments were deposited late resulting in penalties and interest being assessed.

Recommendation: We recommend that timely payments are made.

Response: The District will have prepared an accounting and internal control policy manual that will outline FICA payment procedures and schedule.

13. FORMS I-9'S & W-4'S

Comment: While testing employee files, we noted that there were three missing form I-9's and two missing form Iowa W-4's. Employers are required to have form I-9's for ALL employees hired after November 6, 1986. Federal W-4 and Iowa W-4 forms are to be completed upon initial hire. Furthermore, a copy of the Iowa W-4 form must be sent to the "Central Employee Registry." These files are to be maintained by the employer. **We also compared the elections made by employees on the available W-4's to what is entered in the payroll software. Almost every employee had a discrepancy of some kind, for example, the number of exemptions claimed, extra amounts withheld or marital status.**

Recommendation: We recommend that these *required* documents be obtained **and that all data in the payroll software be updated to reflect the elections made on the W-4's. If verbal changes had been made to their elections, then updated W-4's must be completed by the employee.**

Response: The District will have prepared an accounting and internal control policy manual that will outline the computer and filing procedures for I9 and W4 forms including updating procedures.

14. FORM W-2

Comment: Form W-2 was calculated improperly on car allowance for portions of the year.

Recommendation: Form W-2 should be used to report car allowance paid to employees.

Response: The District will use Form W-2 to report car allowance payments.

15. FORM 1099'S

Comment: For calendar year 2006, a form 1099 was issued improperly to Kevin Moler for a car allowance. For calendar year 2007, no 1099 was issued to Brad Oeltienbrun and improper amounts were issued on form 1099's to Potter & Brant, PLC and Ahlers & Cooney law firm.

Recommendation: The District should be educated concerning who should be issued a Form 1099 and issue the proper forms.

Response: The District will employ qualified person(s) that understand Form 1099 issuing policies.

16. RELATED PARTY TRANSACTIONS AND IMPROPER PAYMENT

Comment: The District paid a temporary employee, Peter Daniels, who is the son of Dixie Daniels, to perform lawn maintenance. The Board does not have a written policy regarding related party transactions. We also noted that an employee's child was issued a check for the purchase of a tractor. The Board had approved the purchase of the tractor from the employee's father, not the employee's child.

Recommendation: We recommend the Board institute a policy that requires the prior approval of the Board for all related party transactions. We also recommend that checks are issued to the appropriate business or individual approved by the board.

Response: The District will have prepared a nepotism employment policy that will be added to the Employee Handbook.

17. EDUCATIONAL ASSISTANCE PROGRAM

Comment: During our audit, we noted that an employee was reimbursed tuition, etc. for attending college courses. Other than what is provided in the employee handbook under "Continuing Education Policy," no separate written plan was noted.

Recommendation: To qualify as an educational assistance program under Section 127 of the Internal Revenue Code, the plan must be written and must meet certain other requirements. Under said plan, the employee can exclude up to \$5,250 of qualified benefits each year. If the annual benefits exceed \$5,250, the excess must be reported on the employee's Form W-2 and pay tax on the excess. If the District does not have a qualified plan, the employee must include the entire amount as taxable wages. Therefore, we recommend that the District comply with IRC Section 127. The District began during the fiscal year to draft this document, but it was not completed prior to the payment of an employee for reimbursed tuition.

Response: The District has prepared and submitted a draft Educational Assistance Program and will implement upon its approval.

18. BOARD APPROVED POLICIES AND PROCEDURES

Comment: The District does not have a handbook that documents Board approved policies and procedures regarding accounting and internal controls.

Recommendation: Once the District has approved the change in accounting method to the accrual basis, they should establish a separate handbook documenting approved policies and procedures relating to internal controls. Some examples: cash management, purchasing, bid requirements, cash receipts, payroll, budgeting, investment policy, depreciation and capitalization, etc.

Response: The District will have prepared a Board Approved Policies and Procedures Manual that will address each item as referenced throughout this document.

19. ACCOUNTING METHOD

Comment: The District is currently utilizing the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Recommendation: In order to better reflect the financial condition of the District, we recommend that the accrual method of accounting be adopted in order to give effect to accounts receivable, prepaid expenses, fixed assets, accounts payable, accrued items and bonds payable.

Response: The District is reviewing personnel and software requirements needed to transition to an accrual accounting method and will make necessary adjustments to achieve this directive.

20. SOFTWARE ISSUES

Comment: While performing various audit procedures, we became aware of several flaws in the District's accounting/billing software.

- Employees are allowed to override or delete financial information in the system. Securities are not set up to block these types of activities from occurring.
- We noticed that in the billing system, a couple of months of consumption units were incorrect by a considerable amount. This information is used for revenue analysis and for budgeting purposes.

Recommendation: We concluded during the audit that the software is not designed to prevent, deter or detect fraud from occurring. The software company had not considered that the poor design of the system would allow for fraud to be hidden, but insures that it has the capabilities to set up whatever securities are necessary to reduce the risks of fraud occurring. We recommend that the District meet with the software company to set up these securities and train the appropriate staff on various reconciliations and checks that can be done to determine that transactions are being handled properly and reconcile to the general ledger.

Response: The District will hire a consultant to assist in preparing a Request for Quote for software security changes needed that will reduce the risk of fraud and associated training requirements.

21. SEGREGATION OF DUTIES

Comment: During our review of internal controls, the existing control activities are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the District's financial statements. Generally, one individual has control over receipts and disbursements, including account billings, collecting, depositing, posting, check signing and reconciling, for which no compensating controls exist.

Recommendation: We realize segregation of duties is difficult with a limited number of employees. However, the operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances. Current personnel should be utilized to provide additional control through review of financial transactions and reconciliations. Such reviews should be performed by independent persons to the extent possible and should be evidenced by initials of the reviewer and the date of the review. Furthermore, we recommend that said accounting functions be taught to another employee with appropriate skills and periodically be rotated between employees.

Response: The District will have prepared a Accounting Policy and Procedure Manual that will address these recommendations.

This report is intended solely for the information and use of the Board of Trustees, management and others within the Clear Lake Sanitary District.

Please insert your response in the space provided and return one copy to us.

Sincerely,

Potter & Brant, P.L.C.
Certified Public Accountants