

**LAKE IMPROVEMENT COMMISSION**

**STORM LAKE, IOWA**

**JUNE 30, 2008**

# Table of Contents

---

<b>Officials</b> .....	1
<b>Independent Auditor's Report</b> .....	2
<b>Management's Discussion and Analysis</b> .....	3-5
<b>Basic Financial Statements</b>	
Statement of Activities and Net Assets - Cash Basis .....	6
Statement of Cash Receipts, Disbursements and Changes in Cash Balances .....	7
Notes to the Financial Statements.....	8-9
<b>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</b> .....	10-12

## Officials

---

### Name

Jim Treat  
Sara Huddleston  
Ken Hach  
Paul Merten  
Gary Lalone  
Steve Roth  
Kathy Pomrenke

### Representing

City of Storm Lake  
City of Storm Lake  
Buena Vista County  
Buena Vista County  
Lake Preservation Association  
Lake Preservation Association  
City of Lakeside

### Appointed Officials

### Name

Patti Moore  
Justin Yarosevich

### Title

Commission Administrator  
Commission Secretary/Treasurer

## Independent Auditor's Report

---

Members  
Lake Improvement Commission  
Storm Lake, Iowa

We have audited the accompanying basic financial statements, as listed in the table of contents, of the Lake Improvement Commission at June 30, 2008. These financial statements are the responsibility of the Lake Improvement Commission'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 and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the Lake Improvement Commission at June 30, 2008, and the changes in its 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*, we have also issued our report dated December 19, 2008 on our consideration of the Lake Improvement Commission'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 read in conjunction with this report in considering the results of our audit.

The accompanying Management's Discussion and Analysis on Pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily 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.

*HOGAN - HANSEN*

HOGAN - HANSEN  
Mason City, Iowa  
December 19, 2008

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

The Lake Improvement Commission (Commission) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the Commission's financial statements, which follow.

### **FINANCIAL HIGHLIGHTS**

The Commission's receipts decreased approximately 20%, or \$341,160, from fiscal 2007 to fiscal 2008.

The Commission's disbursements decreased approximately 5%, or \$48,179, from fiscal 2007 to fiscal 2008.

The Commission's net assets increased approximately 44%, or \$531,747, from June 30, 2007 to June 30, 2008.

### **USING THIS ANNUAL REPORT**

The Commission has elected to present its financial statements on a cash basis of accounting. The cash basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenue, expenses and the related assets and liabilities. Under the Commission's cash basis of accounting, revenue and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenue and liabilities and their related expenses 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.

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

This discussion and analysis are intended to serve as an introduction to the Lake Improvement Commission's basic financial statements. The Commission is organized pursuant to the provisions of Chapter 28E of the Code of Iowa and is a component unit of the City of Storm Lake, Iowa. This 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 Commission's financial activities.
- The Statement of Activities and Net Assets - Cash Basis presents information about the governmental activities of the Commission as a whole and presents an overall view of the Commission's finances.

- The Statement of Cash Receipts, Disbursements and Changes in Cash Balances presents information on the Commission’s receipts and disbursements, and whether the Commission’s financial position has improved or deteriorated as a result of the year’s activities.
- The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

The purpose of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances is to present the receipts received and the disbursements paid by the Commission. A summary of cash receipts, disbursements and changes in cash balances for the years ended June 30, 2008 and 2007 is presented below.

### Cash Receipts, Disbursements and Changes in Cash Balances

	<b>2008</b>	<b>2007</b>
<b>Receipts</b>		
Interest on investments .....	\$ 81,081	\$ 37,369
Intergovernmental.....	1,154,294	1,158,329
Other .....	<u>133,950</u>	<u>514,787</u>
<b>Total Receipts .....</b>	<b><u>1,369,325</u></b>	<b><u>1,710,485</u></b>
<b>Disbursements</b>		
Equipment operations.....	246,471	213,575
Equipment repairs.....	173,365	84,536
Insurance.....	22,007	18,128
Contractual services.....	238,563	154,202
Supplies .....	58,172	29,316
Capital outlay.....	<u>99,000</u>	<u>386,000</u>
<b>Total Disbursements .....</b>	<b><u>837,578</u></b>	<b><u>885,757</u></b>
<b>Receipts Over Disbursements.....</b>	<b>531,747</b>	<b>824,728</b>
Cash Balance - Beginning of Year .....	<u>1,211,688</u>	<u>386,960</u>
<b>Cash Balance - End of Year.....</b>	<b><u>\$ 1,743,435</u></b>	<b><u>\$ 1,211,688</u></b>

In fiscal year 2008, receipts decreased \$341,160, or 20%. The City saw an decrease in the amount of private donations. In fiscal year 2008, disbursements decreased by \$48,179, or 5%. The decrease was primarily due to a decrease in equipment purchases.

## FINANCIAL ANALYSIS OF THE COMMISSION

Net assets serve as a useful indicator of financial position. The Commission's cash balance increased from a year ago. The analysis that follows focuses on the changes in cash balance.

<b>Changes in Cash Basis Net Assets</b>		
	<b>2008</b>	<b>2007</b>
<b>Receipts</b>		
Program Receipts		
Operating grants and contributions.....	\$ 1,288,244	\$ 1,673,116
General Receipts		
Unrestricted investments earnings .....	<u>81,081</u>	<u>37,369</u>
	1,369,325	1,710,485
<b>Disbursements</b>		
General operations.....	<u>837,578</u>	<u>885,757</u>
<b>Increase in Cash Basis Net Assets .....</b>	<b>531,747</b>	<b>824,728</b>
Cash Basis Net Assets - Beginning of Year .....	<u>1,211,688</u>	<u>386,960</u>
<b>Cash Basis Net Assets - End of Year.....</b>	<b><u>\$ 1,743,435</u></b>	<b><u>\$ 1,211,688</u></b>

## LONG-TERM DEBT

At June 30, 2008, the Commission had no outstanding debt.

## ECONOMIC FACTORS

The current condition of the economy in the state continues to be a concern for Commission officials because operations are contingent on the continued support from both the state and federal government. Some of the realities that may potentially become challenges for the Commission to meet are:

- Equipment requires constant maintenance and upkeep.
- Increased fuel costs and operational costs associated with the new booster pump that is required in order to dredge further distances away from the spoil site.
- Cash flow issues because of the dependence on contributions and timeliness of state and federal assistance.

The Commission anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Commission's ability to react to unknown issues.

## CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lake Improvement Commission, City of Storm Lake, Iowa, by phone at (712) 732-8000 or by email at moore@stormlake.org.

**Basic Financial Statements**



# Statement of Activities and Net Assets - Cash Basis

At June 30, 2008

	Disbursements	<u>Program Receipts Operating Contributions and Grants</u>	Net Receipts and Changes in Cash Basis Net Assets
<b>Governmental activities</b> .....	<u>\$ 837,578</u>	<u>\$ 1,288,244</u>	\$ 450,666
<b>General Receipts</b>			
Unrestricted interest on investments .....			<u>81,081</u>
<b>Change in Cash Basis Net Assets</b> .....			<b>531,747</b>
Cash Basis Net Assets - Beginning of Year .....			<u>1,211,688</u>
<b>Cash Basis Net Assets - End of Year</b> .....			<u><b>\$ 1,743,435</b></u>
<b>Cash Basis Net Assets</b>			
Unrestricted .....			<u><b>\$ 1,743,435</b></u>

# Statement of Cash Receipts, Disbursements and Changes in Cash Balances

---

Year Ended June 30, 2008

**Receipts**

Use of Money and Property	
Interest on investments .....	\$ <u>81,081</u>
Intergovernmental	
State grants .....	1,000,000
Contribution - local governments .....	<u>154,294</u>
	<u>1,154,294</u>
Miscellaneous	
Contribution - Lake Preservation Association .....	106,000
Contribution - other .....	<u>27,950</u>
	<u>133,950</u>
<b>Total Receipts</b> .....	<b><u>1,369,325</u></b>

**Disbursements**

Equipment operations .....	246,471
Equipment repairs .....	173,365
Insurance .....	22,007
Contractual services .....	238,563
Supplies .....	58,172
Capital outlay .....	<u>99,000</u>
<b>Total Disbursements</b> .....	<b><u>837,578</u></b>

**Net Change in Cash Balance** ..... **531,747**

Fund Balance - Beginning of Year..... 1,211,688

**Fund Balance - End of Year** ..... **\$ 1,743,435**

# Notes to the Financial Statements

---

## **(1) Summary of Significant Accounting Policies and Other Matters**

### **Nature of Business**

The Lake Improvement Commission (Commission) was formed in November, 2002, pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Commission is to finance and effect a continued dredging of Storm Lake so as to enhance the use of the lake for water recreation, to promote fishing and to guarantee the continued existence of this natural water resource. The second purpose is to identify and promote water quality/watershed projects to improve the water quality of the lake and minimize the re-accumulation of silt.

Members of the Commission consist of the City of Storm Lake, Iowa, the City of Lakeside, Iowa, Buena Vista County, Iowa, and the Lake Preservation Association for Storm Lake, Inc. The Lake Improvement Commission is financially dependent upon member contributions.

### **Reporting Entity**

For financial purposes, the Lake Improvement Commission has included all funds, organizations, agencies, boards, commissions and authorities. The Commission 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 Commission are such that exclusion would cause the Commission'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 Commission 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 Commission. The Commission has no component units which meet the Governmental Accounting Standards Board criteria.

### **Basis of Presentation**

The accounts of the Commission are organized as a governmental fund. Governmental fund activities are supported by intergovernmental revenue and other operating grants. The Commission has a general operating fund, and all receipts are accounted for in this fund. From this fund are paid the general operating disbursements, fixed charges and capital improvement costs. All net assets are considered unrestricted.

### **Basis of Accounting**

The Lake Improvement Commission maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Commission 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 the financial position and results of operation of the Commission in accordance with accounting principles generally accepted in the United States of America.

### **Budget Information**

The Lake Improvement Commission is not legally required to adopt a budget.

## Notes to the Financial Statements

---

### **(2) Deposits and Investments**

The Commission's deposits at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Commission 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 Commission; 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 Commission had no investments meeting the disclosure requirements of GASB Statement No. 3, as amended by Statement No. 40.

The Commission's cash at June 30, 2008, consisting of cash in bank and certificates of deposit totaling \$1,743,435.

### **(3) Risk Management**

According to the 28E Agreement, the Commission purchases and maintains general liability insurance covering all operations and public officials' liability insurance on behalf of its Board of Directors.

### **(4) Operating Lease Agreement**

In April, 2003, the Commission entered into an operating lease agreement for the rental of real property. The lease requires annual cash rent of \$200/per acre for a period of six years. The Commission made a lease payment of \$7,438 during the year.

### **(5) Related Party Transactions**

The Commission uses a dredge and associated equipment purchased by Buena Vista County. The Commission does not pay for the use of these items. The estimated fair value of the use of the equipment of \$30,000 has been recorded as a receipt and disbursement in the statement of cash, receipts, disbursements and changes in cash balances and on the statement of activities and net assets - cash basis to recognize the estimated fair value of this noncash contribution.

### **(6) Insurance Proceeds**

The Commission received \$70,877 in insurance proceeds which were used for repairs and supplies due to the dredge sinking during the winter. These proceeds were used to offset the appropriate expenditures.

**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**

---

Members  
Lake Improvement Commission  
Storm Lake, Iowa

We have audited the accompanying financial statements of the Lake Improvement Commission as of and for the year ended June 30, 2008, and have issued our report thereon dated December 19, 2008. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with the cash basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Lake Improvement Commission's ability to initiate, authorize, record, process or report financial data reliably in accordance with the cash basis of accounting, which is an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the Lake Improvement Commission's financial statements that is more than inconsequential will not be prevented or detected by the Lake Improvement Commission's internal control. We consider the deficiencies in internal control described below 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 a material misstatement of the financial statements will not be prevented or detected by the Lake Improvement Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and material weaknesses.

#### **08-IC-1 Bank Reconciliations**

**Current Year Finding** - Bank reconciliations were not being reconciled with the cash and investments in the general ledger.

**Auditor's Recommendation** - We recommend that the bank reconciliations include all outstanding items and reconcile both cash and investments to the general ledger. This will improve the Commission's internal controls.

**Commission's Response** - Management was aware of this issue and has worked to resolve this. We will reconcile the cash with the general ledger on a timely basis.

**Conclusion** - Response accepted.

#### **08-IC-2 Financial Statement Preparation**

**Current Year Finding** - The Commission does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with the cash basis of accounting. As is inherent in many organizations of this size, the Commission has management and employees who, while knowledgeable and skillful, do not have the time to maintain the current knowledge and expertise to fully apply the cash basis of accounting in preparing the financial statements and the related disclosures.

**Auditor's Recommendation** - The Commission should consider obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses.

**Commission's Response** - The Commission will consider obtaining additional knowledge where cost effective but will continue to rely on its audit firm for assistance with drafting the financial statements and disclosures.

**Conclusion** - Response accepted.

#### **Compliance and Other Matters**

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

The following comments involving statutory and other legal matters about the Commission's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Commission. 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.

- A. **Questionable Disbursements** - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- B. **Travel Expense** - No disbursements of the Lake Improvement Commission money for travel expenses of spouses of Commission officials or employees were noted.
- C. **Commission Minutes** - No transactions were found that we believe should have been included in the Commission minutes but were not.
- D. **Deposits and Investments** - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa. The Commission's deposits and investments are held by the City of Storm Lake and included in the City's depository resolution.

This report, a public record by law, is intended solely for the information and use of the members of the Lake Improvement Commission and is not intended to be and should not be used by anyone other than these specified parties.

*HOGAN - HANSEN*

HOGAN - HANSEN

Mason City, Iowa  
December 19, 2008