

CITY OF STORM LAKE, IOWA

FINANCIAL STATEMENTS

JUNE 30, 2008

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Officials

Name	Title	Term Expires
Elected Officials - Before January, 2008		
Jon Kruse	Mayor	January, 2010
Dennis Vaudt	Mayor Pro Tem	January, 2010
Wally Burns	Council Member	January, 2008
Julie Eglund	Council Member	January, 2008
Sara Monroy-Huddleston	Council Member	January, 2008
James Treat	Council Member	January, 2010
Elected Officials - After January, 2008		
Jon Kruse	Mayor	January, 2010
Dennis Vaudt (resigned 5/19/08)	Mayor Pro Tem	N/A
James Treat	Council Member, Mayor Pro Tem (effective May 20, 2008)	January, 2010
David Walker	Council Member	January, 2012
Steven O'Bannon	Council Member	January, 2012
Sara Monroy-Huddleston	Council Member	January, 2012
Julie Eglund (appointed 6/19/08)	Council Member	January, 2010
Appointed Officials		
Patti Moore	City Administrator	Indefinite
Justin Yarosevich	City Clerk	Indefinite
Paul Havens	City Attorney	Indefinite

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Storm Lake, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Storm Lake, Iowa's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Storm Lake, Iowa, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2008 on our consideration of the City of Storm Lake, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Storm Lake, Iowa's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2007 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The financial statements and supplemental data for the years ended June 30, 2006 and 2005 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the second paragraph of this report who expressed unqualified opinions on those financial statements and supplemental data. Other supplementary information included on Pages 42 through 48 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
December 16, 2008

Management's Discussion and Analysis

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

2008 FINANCIAL HIGHLIGHTS

Total revenue for the City decreased 20%, or approximately \$4,050,000, from fiscal year 2007 to fiscal year 2008. Most of this decrease was due to bond proceeds and grant funding received in fiscal year 2007. Property tax revenue decreased by approximately \$178,000. Most of this decrease occurred within the general property tax levy.

Program expenses increased 49%, or approximately \$5,550,000, from fiscal year 2007 to fiscal year 2008. This was due in large part to various capital projects that were completed in fiscal year 2008. Projects completed include East Lakeshore Drive, the Family Playground, the Great Lawn and the Lighthouse.

The City's net assets decreased 2%, or approximately \$958,000, from June 30, 2007 to June 30, 2008. Of this amount, the net assets of the governmental activities decreased \$196,602 and the assets of the business-type activities decreased by \$761,920. The majority of the decrease in net assets is the result of King's Pointe's initial year of operations.

USING THIS ANNUAL REPORT

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

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

The Government-Wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These statements provide information about the activities of the City as a whole and present an overall view of the City's finances.

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

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

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

Other Supplementary Information provides detailed information about the nonmajor special revenue funds.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

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

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business-type activities include the waterworks, the sanitary sewer system, storm water, King's Pointe and the City's sanitation department. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year end. The governmental funds include: (a) the General Fund, (b) the Special Revenue Funds, such as tax increment financing revenue, local option sales tax, and employee benefits tax levy, (c) the Debt Service Fund, and (d) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenue, expenditures and changes in fund balances.

2. Proprietary funds account for the City’s Enterprise Funds. These funds report services for which the City charges customers for the services they provide. Proprietary funds are reported in the same way as a business and all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary funds and the business-type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The enterprise funds include the waterworks, wastewater, storm water, King’s Pointe and sanitation funds. The City is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a statement of net assets, a statement of revenue, expenses and changes in net assets and a statement of cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in net assets for governmental and business-type activities.

Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u> (Restated)	<u>2008</u>	<u>2007</u> (Restated)
Current and other assets	\$ 9,900,918	\$ 12,286,540	\$ 6,064,323	\$ 9,704,475	\$ 15,965,241	\$ 21,991,015
Capital assets	<u>21,661,733</u>	<u>20,103,276</u>	<u>36,111,982</u>	<u>35,853,855</u>	<u>57,773,715</u>	<u>55,957,131</u>
Total Assets	<u>31,562,651</u>	<u>32,389,816</u>	<u>42,176,305</u>	<u>45,558,330</u>	<u>73,738,956</u>	<u>77,948,146</u>
Long-term liabilities	19,095,000	19,195,000	7,302,865	7,370,360	26,397,865	26,565,360
Other liabilities	<u>4,480,217</u>	<u>5,010,780</u>	<u>1,047,214</u>	<u>3,599,824</u>	<u>5,527,431</u>	<u>8,610,604</u>
Total Liabilities	<u>23,575,217</u>	<u>24,205,780</u>	<u>8,350,079</u>	<u>10,970,184</u>	<u>31,925,296</u>	<u>35,175,964</u>
Net Assets						
Invested in capital assets, net of related debt	2,161,733	588,276	28,485,506	28,170,967	30,647,239	28,759,243
Restricted	20,845	23,960	1,180,510	648,035	1,201,355	671,995
Unrestricted	<u>5,804,856</u>	<u>7,571,800</u>	<u>4,160,210</u>	<u>5,769,144</u>	<u>9,965,066</u>	<u>13,340,944</u>
Total Net Assets	<u>\$ 7,987,434</u>	<u>\$ 8,184,036</u>	<u>\$ 33,826,226</u>	<u>\$ 34,588,146</u>	<u>\$ 41,813,660</u>	<u>\$ 42,772,182</u>

Total net assets decreased from 2007 by \$958,522, or 2%. The largest portion of the City’s net assets are invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. Unrestricted net assets is the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements.

Statement of Activities

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenue						
Program Revenue						
Charges for service	\$ 1,591,336	\$ 850,671	\$ 7,324,579	\$ 4,237,942	\$ 8,915,915	\$ 5,088,613
Operating grants, contributions and restricted interest	1,030,784	1,026,656	1,199,608	6,085,517	2,230,392	7,112,173
Capital grants, contributions and restricted interest	209,303	1,658,728	—	—	209,303	1,658,728
General Revenue						
Property Tax Levied for						
General purposes	1,777,335	1,984,354	—	—	1,777,335	1,984,354
Employee benefits	735,589	716,274	—	—	735,589	716,274
Debt service	286,913	277,806	—	—	286,913	277,806
Tax increment financing	129,377	83,873	—	—	129,377	83,873
Local option sales tax	1,209,525	1,022,119	—	—	1,209,525	1,022,119
Unrestricted investment earnings	199,006	579,340	226,168	199,944	425,174	779,284
Miscellaneous	49,027	13,451	16,460	—	65,487	13,451
Gain on sale of property	34,020	1,140,019	—	—	34,020	1,140,019
Transfers	27,984	(6,811,808)	(224,901)	6,811,808	(196,917)	—
Total Revenue	<u>7,280,199</u>	<u>2,541,483</u>	<u>8,541,914</u>	<u>17,335,211</u>	<u>15,822,113</u>	<u>19,876,694</u>
Program Expenses						
Public Safety	2,212,478	2,104,701	—	—	2,212,478	2,104,701
Public Works	1,460,577	1,262,035	—	—	1,460,577	1,262,035
Health and Social Services	14,221	12,850	—	—	14,221	12,850
Culture and Recreation	1,879,222	816,660	—	—	1,879,222	816,660
Community and Economic Development	348,970	351,232	—	—	348,970	351,232
General Government	399,703	342,207	—	—	399,703	342,207
Capital Projects	198,548	165,411	—	—	198,548	165,411
Interest on long-term debt	963,082	795,097	—	—	963,082	795,097
Water	—	—	2,478,861	2,526,039	2,478,861	2,526,039
Wastewater	—	—	1,695,780	1,579,184	1,695,780	1,579,184
Landfill	—	—	401,532	360,987	401,532	360,987
Storm Water	—	—	161,785	106,460	161,785	106,460
King's Pointe	—	—	4,565,876	807,870	4,565,876	807,870
Total Expenses	<u>7,476,801</u>	<u>5,850,193</u>	<u>9,303,834</u>	<u>5,380,540</u>	<u>16,780,635</u>	<u>11,230,733</u>
Change in Net Assets	(196,602)	(3,308,710)	(761,920)	11,954,671	(958,522)	8,645,961
Net Assets - Beginning of Year, as Restated	<u>8,184,036</u>	<u>11,492,746</u>	<u>34,588,146</u>	<u>22,633,475</u>	<u>42,772,182</u>	<u>34,126,221</u>
Net Assets - End of Year	<u>\$ 7,987,434</u>	<u>\$ 8,184,036</u>	<u>\$ 33,826,226</u>	<u>\$ 34,588,146</u>	<u>\$ 41,813,660</u>	<u>\$ 42,772,182</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

Governmental Fund Highlights

As the City of Storm Lake completed the year, its governmental funds reported a combined fund balance of \$4,817,072, a decrease of \$1,483,100 from last year's total of \$6,300,172. The following are the major reasons for the changes in fund balances of the major governmental funds from the prior year.

The General Fund is the chief operating fund of the City. This fund reported a decrease of \$128,946 in fund balance from the prior year to \$1,065,810. The Capital Projects fund balance decreased by \$1,108,527 from the prior year to \$1,790,089. The decrease is a result of the completion of several components of Project AWAYSIS. The Local Option Sales Tax fund balance decreased by \$422,376 from the prior year. This was a result of increased transfers out for bond payments and the Great Lawn and West Lakeshore Drive capital projects. The Road Use Tax Fund accounts for revenue received from the State of Iowa for road improvements. Its fund balance increased by \$119,864 from the prior year. This increase was the result of a decrease in transfers to the Capital Projects Fund.

Proprietary Fund Highlights

The Water Fund, which accounts for the operation and maintenance of the City's water system, ended 2008 with a \$5,905,132 net asset balance compared to the prior year ending net asset balance of \$6,270,773.

The Wastewater Fund, which accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system, ended 2008 with a \$5,663,153 net asset balance compared to the prior year ending net asset balance of \$5,720,783.

The King's Pointe Fund, which accounts for the operation and maintenance of King's Pointe Resort, ended 2008 with a \$21,063,686 net asset balance compared to the prior year ending net asset balance of \$21,284,432.

The Internal Service Funds are used by management to charge the cost of employee health benefits, technology purchases, and fleet purchases to the individual funds. The net assets of the Internal Service Fund decreased by \$32,113 to \$845,779.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once in May of 2008. The amendment was needed to cover additional expenditures within the Public Safety program for salaries, and additional expenditures in the Public Works, Public Safety and Parks programs for vehicle operations due to the increased fuel prices. The amendment was also needed for increased expenses in the outdoor waterpark operations and for increased costs associated with various capital projects. These include the Lighthouse, Lakeshore Drive Beach and Shallow Well #18. There were also additional expenditures in the General Government function for insurance premiums related to King's Pointe Resort and Waterpark.

The combined tax levy for the City of Storm Lake in fiscal year 2008 increased \$0.22 to \$13.70 per thousand. The employee benefits levy increased \$0.17 to cover increased costs related to the City's health insurance plan. The combined effect of the City's tax levy and the increased residential rollback on a \$100,000 home was an increase of \$4 a year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets include land, buildings and improvements, equipment, streets, sewer systems, lighting systems, traffic signals and other infrastructure. Capital assets for governmental activities totaled \$21,661,733 (net of accumulated depreciation) at June 30, 2008. Capital assets for business-type activities totaled \$36,111,982 (net of accumulated depreciation) at June 30, 2008. See Note 4 to the financial statements for more information about the City's capital assets.

The major capital outlays for governmental activities during the year included West Lakeshore Drive, the Lighthouse, Great Lawn and a new fire truck.

For business-type activities, major capital outlays included construction of Shallow Well #18, well service and an odor control project.

Construction in progress at June 30, 2008 for governmental activities consists primarily of Project AWAYISIS, the airport parking lot and the West Lakeshore Drive street project. Construction in progress at June 30, 2008 for business-type activities consists of the odor control project.

Long-Term Debt

At June 30, 2008, the City had \$19,500,000 in total long-term debt outstanding for governmental activities. The City completed a GO bond issue for a fire truck for \$325,000 in fiscal year 2008. The principal payments are from \$40,000 to \$75,000 with interest rates of 4.25% to 4.5%.

Total long-term debt outstanding for business-type activities was \$7,626,476 at June 30, 2008.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. At June 30, 2008 the City was at 88% of its constitutional debt limit of \$16,840,462 with an outstanding balance of \$14,894,380. While the total general obligation debt outstanding exceeds this amount, certain general obligation bonds include annual appropriation terms. The annual appropriation amount is the principal and interest due in the next year, and only this amount is required to be included in the computation of the statutory debt limit.

Other obligations not affecting the City's debt limit include accrued vacation pay and sick leave.

Additional information about the City's long-term debt is presented in Note 6 to the financial statements.

ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE

Several factors affected decisions made by the City in setting its 2009 budget.

Interest rates have decreased on certificates of deposit and interest-bearing accounts.

Storm Lake has several major construction projects taking place (i.e., the Buena Vista Regional Medical Center addition, new elementary school, Buena Vista University expansion and United Community Health Center). However, these new projects do not add to the tax base, and overall operating costs continue to rise.

There is potential for growth in the tax base due to property tax rebates ending and the new Fareway store that will be constructed in the Spring and Summer of 2009.

The City has seen increased hotel/motel and local option sales tax revenue due to the completion and opening of King's Pointe Resort. Storm Lake continues to have a strong downtown area; therefore, more people are visiting and staying in Storm Lake.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and operating activities. If you have any questions or require additional information, please contact the City Clerk, 620 Erie Street, City of Storm Lake, Iowa, by phone (712) 732-8000, or by email at Justin@stormlake.org.

Basic Financial Statements

Statement of Net Assets

At June 30, 2008

	Governmental Activities	Business- Type Activities	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 1,209,591	\$ 2,545,696	\$ 3,755,287
Investments	4,454,373	1,224,018	5,678,391
Receivables			
Property Taxes			
Current year delinquent, net of allowance for uncollectible taxes.....	22,150	—	22,150
Succeeding year	2,822,663	—	2,822,663
Tax Increment Financing			
Current year delinquent, net of allowance for uncollectible taxes.....	8,370	—	8,370
Succeeding year	284,253	—	284,253
Customer accounts, net of allowance for uncollectible accounts.....	—	615,807	615,807
Accounts	43,247	—	43,247
Accrued interest.....	45,994	14,538	60,532
Due from other governments.....	328,646	148,800	477,446
Due from other funds.....	—	9,399	9,399
Inventories and prepaids	205,803	248,630	454,433
Total Current Assets	<u>9,425,090</u>	<u>4,806,888</u>	<u>14,231,978</u>
Restricted Assets			
Cash and cash equivalents	—	60,775	60,775
Investments	—	1,119,735	1,119,735
Pledges receivable, net of allowance for uncollectible pledges.....	354,746	—	354,746
Total Restricted Assets	<u>354,746</u>	<u>1,180,510</u>	<u>1,535,256</u>
Noncurrent Assets			
Loans fees, net of accumulated amortization ..	—	76,925	76,925
Bond issue costs	121,082	—	121,082
Capital assets, net of accumulated depreciation	21,661,733	36,111,982	57,773,715
Total Noncurrent Assets	<u>21,782,815</u>	<u>36,188,907</u>	<u>57,971,722</u>
Total Assets	<u>\$ 31,562,651</u>	<u>\$ 42,176,305</u>	<u>\$ 73,738,956</u>

See accompanying notes to the financial statements.

	Governmental Activities	Business- Type Activities	Total
Liabilities			
Current Liabilities			
Accounts payable	\$ 453,822	\$ 383,728	\$ 837,550
Accrued interest payable	22,487	19,325	41,812
Accrued wages and benefits	78,951	102,028	180,979
Compensated absences.....	273,624	28,434	302,058
Accrued expenses.....	120,030	86,514	206,544
Due to other funds.....	9,399	—	9,399
Matured bonds payable.....	5,000	—	5,000
Matured interest payable.....	4,988	—	4,988
General obligation bonds payable.....	405,000	—	405,000
Payable From Restricted Assets			
Customer deposits.....	—	55,185	55,185
Revenue bonds payable.....	—	372,000	372,000
Deferred Revenue			
Succeeding year property taxes	2,822,663	—	2,822,663
Succeeding year tax increment financing	284,253	—	284,253
Total Current Liabilities	<u>4,480,217</u>	<u>1,047,214</u>	<u>5,527,431</u>
Long-Term Liabilities			
Compensated absences.....	—	48,389	48,389
Revenue bonds payable.....	—	7,254,476	7,254,476
General obligation bonds payable.....	19,095,000	—	19,095,000
Total Long-Term Liabilities	<u>19,095,000</u>	<u>7,302,865</u>	<u>26,397,865</u>
Total Liabilities	<u>23,575,217</u>	<u>8,350,079</u>	<u>31,925,296</u>
Net Assets			
Invested in capital assets, net of related debt .	2,161,733	28,485,506	30,647,239
Restricted For			
Revenue bond repayment.....	—	558,000	558,000
Debt service	20,845	—	20,845
Customer deposits.....	—	55,185	55,185
King's Pointe debt service.....	—	355,125	355,125
King's Pointe taxes and insurance.....	—	65,205	65,205
King's Pointe replacement	—	146,995	146,995
Unrestricted	5,804,856	4,160,210	9,965,066
Total Net Assets	<u>7,987,434</u>	<u>33,826,226</u>	<u>41,813,660</u>
Total Liabilities and Net Assets	<u>\$ 31,562,651</u>	<u>\$ 42,176,305</u>	<u>\$ 73,738,956</u>

Statement of Activities

Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenue			Net (Expenses), Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities							
Public safety	\$ 2,212,478	\$ 61,273	\$ 93,914	\$ —	\$ (2,057,291)	\$ —	\$ (2,057,291)
Public works	1,460,577	441,178	871,282	—	(148,117)	—	(148,117)
Health and social services	14,221	159,241	—	—	145,020	—	145,020
Culture and recreation	1,879,222	912,380	65,588	—	(901,254)	—	(901,254)
Community and economic development	348,970	—	—	—	(348,970)	—	(348,970)
General government	399,703	17,264	—	—	(382,439)	—	(382,439)
Capital projects	198,548	—	—	209,303	10,755	—	10,755
Interest on long-term debt	963,082	—	—	—	(963,082)	—	(963,082)
Total Governmental Activities	7,476,801	1,591,336	1,030,784	209,303	(4,645,378)	—	(4,645,378)
Business-Type Activities							
Water	2,478,861	2,365,768	103,783	—	—	(9,310)	(9,310)
Wastewater	1,695,780	1,573,650	—	—	—	(122,130)	(122,130)
King's Pointe	4,565,876	2,787,601	1,095,825	—	—	(682,450)	(682,450)
Sanitation	401,532	380,151	—	—	—	(21,381)	(21,381)
Storm water	161,785	217,409	—	—	—	55,624	55,624
Total Business-Type Activities	9,303,834	7,324,579	1,199,608	—	—	(779,647)	(779,647)
Total	\$ 16,780,635	\$ 8,915,915	\$ 2,230,392	\$ 209,303	(4,645,378)	(779,647)	(5,425,025)
General Revenue							
Property and Other City Tax Levied for							
General purposes					1,777,335	—	1,777,335
Employee benefits					735,589	—	735,589
Debt service					286,913	—	286,913
Tax increment financing taxes					129,377	—	129,377
Local option sales tax					1,209,525	—	1,209,525
Investment earnings					199,006	226,168	425,174
Miscellaneous					49,027	16,460	65,487
Total General Revenue					4,386,772	242,628	4,629,400
Change in Net Assets Before Other Financing Sources (Uses)					(258,606)	(537,019)	(795,625)
Other Financing Sources (Uses)							
Gain on sale of property					34,020	—	34,020
Transfers					27,984	(224,901)	(196,917)
Total Other Financing Sources (Uses)					62,004	(224,901)	(162,897)
Change in Net Assets					(196,602)	(761,920)	(958,522)
Net Assets - Beginning of Year, as restated (Note 14)					8,184,036	34,588,146	42,772,182
Net Assets - End of Year					\$ 7,987,434	\$ 33,826,226	\$ 41,813,660

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

At June 30, 2008

	General	Road Use Tax	Local Option Sales Tax	Debt Service	Capital Projects	Other Nonmajor Governmental	Total
Assets							
Cash and cash equivalents	\$ 348,232	\$ 362,569	\$ —	\$ 1,098	\$ 133,527	\$ 246,870	\$ 1,092,296
Investments	697,212	1,349	519,736	26,712	1,947,276	502,716	3,695,001
Receivables (net of allowance for uncollectible amounts)							
Property Taxes							
Current year delinquent.....	17,810	—	—	3,023	—	1,317	22,150
Succeeding year	1,791,220	—	—	272,558	—	758,885	2,822,663
Tax Increment Financing							
Delinquent	—	—	—	—	—	8,370	8,370
Succeeding year	—	—	—	—	—	284,253	284,253
Accounts	43,247	—	—	—	—	—	43,247
Accrued interest	33,091	1,231	3,824	—	3,361	1,767	43,274
Pledges	—	—	—	—	354,746	—	354,746
Due from other governments.....	58,907	69,155	190,240	—	—	10,344	328,646
Due from other funds.....	50,504	—	—	—	—	—	50,504
Inventories	54,036	1,721	—	—	—	—	55,757
Prepaid expenses.....	334	—	—	—	210	143,082	143,626
Total Assets	\$ 3,094,593	\$ 436,025	\$ 713,800	\$ 303,391	\$ 2,439,120	\$ 1,957,604	\$ 8,944,533
Liabilities and Fund Balances							
Current Liabilities							
Accounts payable	\$ 71,581	\$ 21,940	\$ —	\$ —	\$ 297,615	\$ 22,658	\$ 413,794
Salaries and benefits payable	83,592	20,624	—	—	3,420	12,394	120,030
Accrued liabilities.....	22,487	—	—	—	—	—	22,487
Due to other funds.....	59,903	—	—	—	—	—	59,903
Matured bonds payable.....	—	—	—	5,000	—	—	5,000
Matured interest payable.....	—	—	—	4,988	—	—	4,988
Deferred Revenue							
Succeeding year property tax	1,791,220	—	—	272,558	—	758,885	2,822,663
Succeeding year tax increment financing	—	—	—	—	—	284,253	284,253
Other	—	—	46,347	—	347,996	—	394,343
Total Liabilities	2,028,783	42,564	46,347	282,546	649,031	1,078,190	4,127,461
Fund Balances							
Reserved for							
Debt service	—	—	—	20,845	—	—	20,845
Inventories and prepaids.....	54,370	1,721	—	—	210	143,082	199,383
Unreserved							
Designated for							
Outdoor waterpark replacement.....	9,911	—	—	—	—	—	9,911
Undesignated							
Reported in							
General fund	1,001,529	—	—	—	—	—	1,001,529
Special revenue funds.....	—	391,740	667,453	—	—	733,714	1,792,907
Capital projects fund	—	—	—	—	1,789,879	—	1,789,879
Permanent fund.....	—	—	—	—	—	2,618	2,618
Total Fund Balances	1,065,810	393,461	667,453	20,845	1,790,089	879,414	4,817,072
Total Liabilities and Fund Balances	\$ 3,094,593	\$ 436,025	\$ 713,800	\$ 303,391	\$ 2,439,120	\$ 1,957,604	\$ 8,944,533

See accompanying notes to the financial statements.

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

At June 30, 2008

Total Fund Balances for Governmental Funds (Page 13)	\$ 4,817,072
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.	21,661,733
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds.....	394,343
Bond issue costs are not available to pay current period expenditures, and therefore, are expensed in the funds.	121,082
The Internal Service Funds are used by management to charge the cost of employee health benefits and fleet purchases to the individual funds. The assets of the Internal Service Fund are included in governmental activities in the statement of net assets.	845,779
Long-term liabilities, including bonds payable, compensated absences and accrued interest are not due and payable in the current period and, therefore, are not reported as liabilities in the fund	<u>(19,852,575)</u>
 Net Assets of Governmental Activities (Page 11)	 <u>\$ 7,987,434</u>

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

Year Ended June 30, 2008

	General	Road Use Tax	Local Option Sales Tax	Debt Service	Capital Projects	Other Nonmajor Governmental	Total
Revenue							
Property tax	\$ 1,654,080	\$ —	\$ —	\$ 286,913	\$ —	\$ 858,844	\$ 2,799,837
Tax increment financing	—	—	—	—	—	129,377	129,377
Other tax	279,655	—	900,502	7,029	—	22,339	1,209,525
Licenses and permits	256,198	—	—	—	—	—	256,198
Use of money and property	290,775	—	47,289	—	30,481	15,061	383,606
Intergovernmental	27,952	863,876	—	—	8,782	170,251	1,070,861
Charges for services	1,150,540	—	—	—	—	—	1,150,540
Miscellaneous	64,667	33,946	—	—	290,015	55,365	443,993
Total Revenue	3,723,867	897,822	947,791	293,942	329,278	1,251,237	7,443,937
Expenditures							
Public safety	1,674,065	—	—	—	—	322,634	1,996,699
Public works	291,087	614,458	—	—	—	102,007	1,007,552
Health and social services	14,221	—	—	—	—	—	14,221
Culture and recreation	1,375,198	—	—	—	—	119,233	1,494,431
Community and economic development	185,992	—	—	—	—	162,978	348,970
General government	200,320	—	—	—	—	138,382	338,702
Debt service	—	—	—	1,293,896	—	—	1,293,896
Capital projects	—	—	—	—	2,819,570	—	2,819,570
Total Expenditures	3,740,883	614,458	—	1,293,896	2,819,570	845,234	9,314,041
Revenue Over (Under) Expenditures	(17,016)	283,364	947,791	(999,954)	(2,490,292)	406,003	(1,870,104)
Other Financing Sources (Uses)							
Bond proceeds	—	—	—	325,000	—	—	325,000
Proceeds from sale of property	34,020	—	—	—	—	—	34,020
Operating transfers in	69,607	29,000	—	996,839	1,783,814	4,000	2,883,260
Operating transfers out	(215,557)	(192,500)	(1,370,167)	(325,000)	(402,049)	(350,003)	(2,855,276)
Total Other Financing Sources (Uses)	(111,930)	(163,500)	(1,370,167)	996,839	1,381,765	(346,003)	387,004
Net Change in Fund Balances	(128,946)	119,864	(422,376)	(3,115)	(1,108,527)	60,000	(1,483,100)
Fund Balances - Beginning of Year	1,194,756	273,597	1,089,829	23,960	2,898,616	819,414	6,300,172
Fund Balances - End of Year	\$ 1,065,810	\$ 393,461	\$ 667,453	\$ 20,845	\$ 1,790,089	\$ 879,414	\$ 4,817,072

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

Year Ended June 30, 2008

Changes in Fund Balances - Total Governmental Funds (Page 15) \$ (1,483,100)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditure for capital assets	\$ 2,627,655	
Depreciation expense	<u>(1,069,198)</u>	
Net Increase.....		1,558,457

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

Contributions		(225,742)
---------------------	--	-----------

The Internal Service Fund is used by management to charge the cost of employee health benefits and fleet purchases to the individual funds. The change in net assets of the Internal Service Fund are included in governmental activities.....

(32,113)

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

(325,000)

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

(6,633)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.....

340,000

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds with the change from the prior year amounts, as follows:

Compensated absences	\$ (13,285)	
Interest on long-term debt	<u>(9,186)</u>	<u>(22,471)</u>

Change in Net Assets of Governmental Activities (Page 12) \$ (196,602)

Statement of Net Assets - Proprietary Funds

At June 30, 2008

	Enterprise Funds				Total	Internal Service Funds
	Water	Wastewater	King's Pointe	Other Nonmajor Enterprise		
Assets						
Current Assets						
Cash and cash equivalents	\$ 1,007,619	\$ 352,855	\$ 616,938	\$ 568,284	\$ 2,545,696	\$ 117,295
Investments	110,779	944,055	—	169,184	1,224,018	759,372
Receivables						
Customer accounts and unbilled usage	263,049	185,125	95,646	71,987	615,807	—
Accrued interest.....	6,525	5,135	—	2,878	14,538	2,720
Due from other governments.....	—	—	148,800	—	148,800	—
Due from other funds.....	800,000	393,987	59,903	—	1,253,890	—
Inventories.....	31,288	2,285	29,580	1,145	64,298	6,420
Prepaid expenses.....	56,620	54,954	71,464	1,294	184,332	—
Total Current Assets	<u>2,275,880</u>	<u>1,938,396</u>	<u>1,022,331</u>	<u>814,772</u>	<u>6,051,379</u>	<u>885,807</u>
Restricted Assets						
Cash	55,185	5,590	—	—	60,775	—
Investments	500,000	22,410	567,325	30,000	1,119,735	—
Total Restricted Assets	<u>555,185</u>	<u>28,000</u>	<u>567,325</u>	<u>30,000</u>	<u>1,180,510</u>	<u>—</u>
Noncurrent Assets						
Loan fees, net of accumulated amortization.....	59,688	6,887	—	10,350	76,925	—
Capital assets, net of accumulated depreciation	9,503,303	4,404,560	21,157,902	1,046,217	36,111,982	—
Total Noncurrent Assets	<u>9,562,991</u>	<u>4,411,447</u>	<u>21,157,902</u>	<u>1,056,567</u>	<u>36,188,907</u>	<u>—</u>
Total Assets	<u>\$ 12,394,056</u>	<u>\$ 6,377,843</u>	<u>\$ 22,747,558</u>	<u>\$ 1,901,339</u>	<u>\$ 43,420,796</u>	<u>\$ 885,807</u>

Statement of Net Assets - Proprietary Funds

At June 30, 2008

	Enterprise Funds				Total	Internal Service Funds
	Water	Wastewater	King's Pointe	Other Nonmajor Enterprise		
Liabilities and Net Assets						
Liabilities						
Current Liabilities						
Accounts payable	\$ 38,853	\$ 67,873	\$ 276,044	\$ 958	\$ 383,728	\$ 1,578
Estimated claims incurred but not reported under self-insured health plan.....	—	—	—	—	—	38,450
Salaries and benefits payable	11,643	9,621	—	3,942	25,206	—
Accrued interest payable	15,830	1,745	—	1,750	19,325	—
Accrued expenses	—	—	163,337	—	163,337	—
Due to other funds	—	—	1,244,491	—	1,244,491	—
Compensated absences.....	13,365	13,729	—	1,340	28,434	—
Payable From Restricted Assets						
Customer deposits.....	55,185	—	—	—	55,185	—
Revenue bonds payable.....	314,000	28,000	—	30,000	372,000	—
Total Current Liabilities.....	448,876	120,968	1,683,872	37,990	2,291,706	40,028
Long-Term Liabilities						
Revenue bonds payable.....	6,015,228	572,248	—	667,000	7,254,476	—
Compensated absences.....	24,820	21,474	—	2,094	48,388	—
Total Long-Term Liabilities.....	6,040,048	593,722	—	669,094	7,302,864	—
Total Liabilities	6,488,924	714,690	1,683,872	707,084	9,594,570	40,028
Net Assets						
Restricted for						
Revenue bonds repayment	500,000	28,000	—	30,000	558,000	—
Customer deposits.....	55,185	—	—	—	55,185	—
King's Pointe debt service	—	—	355,125	—	355,125	—
King's Pointe taxes and insurance	—	—	65,205	—	65,205	—
King's Pointe replacement.....	—	—	146,995	—	146,995	—
Reserved for inventory and prepaids.....	87,908	57,239	101,044	2,439	248,630	—
Unrestricted						
Designated for						
Water improvement	828,847	—	—	—	828,847	—
Wastewater improvements	—	607,279	—	—	607,279	—
Storm sewer improvements.....	—	—	—	435,185	435,185	—
King's Pointe.....	—	—	20,395,317	—	20,395,317	—
Undesignated	4,433,192	4,970,635	—	726,631	10,130,458	845,779
Total Net Assets.....	5,905,132	5,663,153	21,063,686	1,194,255	33,826,226	845,779
Total Liabilities and Net Assets	\$ 12,394,056	\$ 6,377,843	\$ 22,747,558	\$ 1,901,339	\$ 43,420,796	\$ 885,807

See accompanying notes to financial statements.

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

Year Ended June 30, 2008

	Enterprise Funds				Total	Internal Service Funds
	Water	Wastewater	King's Pointe	Other Nonmajor Enterprise		
Operating Revenue						
Charges for services.....	\$ 2,326,443	\$ 1,564,630	\$ 2,474,141	\$ 595,580	\$ 6,960,794	\$ 653,546
Miscellaneous.....	39,325	9,020	313,460	1,980	363,785	638
Total Operating Revenue	<u>2,365,768</u>	<u>1,573,650</u>	<u>2,787,601</u>	<u>597,560</u>	<u>7,324,579</u>	<u>654,184</u>
Operating Expenses						
Governmental Activities						
Public safety	—	—	—	—	—	308,674
Public works	—	—	—	—	—	129,514
Culture and recreation	—	—	—	—	—	74,110
Community and economic development	—	—	—	—	—	1,437
General government.....	—	—	—	—	—	21,586
Capital projects.....	—	—	—	—	—	7,196
Business-Type Activities						
Cost of sales and services.....	1,583,216	1,211,736	3,289,904	488,263	6,573,119	177,002
Depreciation and amortization.....	680,795	467,302	756,071	56,230	1,960,398	—
Miscellaneous.....	16,586	—	—	1,810	18,396	—
Total Operating Expenses	<u>2,280,597</u>	<u>1,679,038</u>	<u>4,045,975</u>	<u>546,303</u>	<u>8,551,913</u>	<u>719,519</u>
Operating Income (Loss)	<u>85,171</u>	<u>(105,388)</u>	<u>(1,258,374)</u>	<u>51,257</u>	<u>(1,227,334)</u>	<u>(65,335)</u>
Nonoperating Income (Expenses)						
Grant income	103,783	—	1,095,825	—	1,199,608	—
Interest income	105,339	71,171	2,577	47,081	226,168	33,222
Interest expense	(198,264)	(16,742)	—	(17,014)	(232,020)	—
Miscellaneous.....	16,460	—	(519,901)	—	(503,441)	—
Total Nonoperating Income	<u>27,318</u>	<u>54,429</u>	<u>578,501</u>	<u>30,067</u>	<u>690,315</u>	<u>33,222</u>
Income (Loss) Before Transfers	<u>112,489</u>	<u>(50,959)</u>	<u>(679,873)</u>	<u>81,324</u>	<u>(537,019)</u>	<u>(32,113)</u>
Transfers in.....	1,013	118,329	878,362	—	997,704	—
Transfers out	(479,143)	(125,000)	(419,235)	(199,227)	(1,222,605)	—
Change in Net Assets	<u>(365,641)</u>	<u>(57,630)</u>	<u>(220,746)</u>	<u>(117,903)</u>	<u>(761,920)</u>	<u>(32,113)</u>
Net Assets - Beginning of Year, as restated (Note 14).....	6,270,773	5,720,783	21,284,432	1,312,158	34,588,146	877,892
Net Assets - End of Year	<u>\$ 5,905,132</u>	<u>\$ 5,663,153</u>	<u>\$ 21,063,686</u>	<u>\$ 1,194,255</u>	<u>\$ 33,826,226</u>	<u>\$ 845,779</u>

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2008

	Enterprise Funds				Total	Internal Service Funds
	Water	Wastewater	King's Pointe	Other Nonmajor Enterprise		
Cash Flows From Operating Activities						
Receipts from customers.....	\$ 2,423,495	\$ 1,595,541	\$ 2,691,955	\$ 573,166	\$ 7,284,157	\$ —
Receipts from operating funds.....	—	—	—	—	—	654,184
Cash paid for personal services	(305,188)	(250,242)	—	(78,772)	(634,202)	—
Cash paid to suppliers	(1,275,065)	(970,834)	(5,915,957)	(478,804)	(8,640,660)	(725,777)
Net Cash Provided by (Used in) Operating Activities	<u>843,242</u>	<u>374,465</u>	<u>(3,224,002)</u>	<u>15,590</u>	<u>(1,990,705)</u>	<u>(71,593)</u>
Cash Flows From Noncapital Financing Activities						
Advances to other funds.....	(1,161,313)	(636,817)	(479,138)	(199,227)	(2,476,495)	—
Advances from other funds.....	1,013	118,329	2,122,853	—	2,242,195	—
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(1,160,300)</u>	<u>(518,488)</u>	<u>1,643,715</u>	<u>(199,227)</u>	<u>(234,300)</u>	<u>—</u>
Cash Flows From Capital and Related Financing Activities						
Acquisition of capital assets	(201,672)	(366,418)	(1,645,697)	—	(2,213,787)	—
Grant proceeds.....	103,783	—	947,025	—	1,050,808	—
Proceeds from revenue bonds	—	306,798	—	—	306,798	—
Repayment of revenue bonds	(305,000)	(27,000)	—	(31,210)	(363,210)	—
Interest payments.....	(199,027)	(15,798)	—	(17,056)	(231,881)	—
Nonoperating revenue (expenditures)	16,460	—	(519,901)	—	(503,441)	—
Net Cash Used in Capital and Related Financing Activities	<u>(585,456)</u>	<u>(102,418)</u>	<u>(1,218,573)</u>	<u>(48,266)</u>	<u>(1,954,713)</u>	<u>—</u>
Cash Flows From Investing Activities						
Purchase of investments	—	—	(827)	(7,003)	(7,830)	—
Interest on investments	111,162	85,576	14,030	48,088	258,856	45,855
Net Cash Provided by Investing Activities	<u>111,162</u>	<u>85,576</u>	<u>13,203</u>	<u>41,085</u>	<u>251,026</u>	<u>45,855</u>
Net Decrease in Cash and Cash Equivalents	<u>(791,352)</u>	<u>(160,865)</u>	<u>(2,785,657)</u>	<u>(190,818)</u>	<u>(3,928,692)</u>	<u>(25,738)</u>
Cash and Cash Equivalents at Beginning of Year.....	1,854,156	519,310	3,402,595	759,102	6,535,163	143,033
Cash and Cash Equivalents at End of Year	<u>\$ 1,062,804</u>	<u>\$ 358,445</u>	<u>\$ 616,938</u>	<u>\$ 568,284</u>	<u>\$ 2,606,471</u>	<u>\$ 117,295</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities						
Operating income (loss)	\$ 85,171	\$ (105,388)	\$ (1,258,374)	\$ 51,257	\$ (1,227,334)	\$ (65,335)
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities						
Depreciation.....	677,045	466,939	756,071	55,605	1,955,660	—
Amortization.....	3,750	363	—	625	4,738	—
(Increase) decrease in accounts receivable and unbilled usage	50,577	21,891	(95,646)	(24,394)	(47,572)	—
(Increase) decrease in Inventories	(506)	453	(16,148)	(845)	(17,046)	(1,423)
(Increase) decrease in prepaid expenses.....	(12,056)	(11,823)	(71,464)	24	(95,319)	—
Increase (decrease) in accounts payable	28,990	(648)	(2,701,778)	(64,808)	(2,738,244)	(2,847)
Increase in salaries and benefits payable.....	53	(50)	—	980	983	—
Increase in incurred and unpaid claims	—	—	—	—	—	(1,988)
Increase in accrued expenses	—	—	163,337	—	163,337	—
Increase in customer deposits.....	7,150	—	—	—	7,150	—
Increase (decrease) in compensated absences.....	3,068	2,728	—	(2,854)	2,942	—
Net Cash Provided by (Used in) Operating Activities	<u>\$ 843,242</u>	<u>\$ 374,465</u>	<u>\$ (3,224,002)</u>	<u>\$ 15,590</u>	<u>\$ (1,990,705)</u>	<u>\$ (71,593)</u>
Reconciliation of Cash and Cash Equivalents to Specific Assets Included on the Statement of Net Assets - Proprietary Funds						
Cash and cash equivalents	\$ 1,007,619	\$ 352,855	\$ 616,938	\$ 568,284	\$ 2,545,696	\$ 117,295
Restricted cash and cash equivalents	55,185	5,590	—	—	60,775	—
Net Cash and Cash Equivalents	<u>\$ 1,062,804</u>	<u>\$ 358,445</u>	<u>\$ 616,938</u>	<u>\$ 568,284</u>	<u>\$ 2,606,471</u>	<u>\$ 117,295</u>

See accompanying notes to financial statements.

Statement of Fiduciary Net Assets - Fiduciary Funds

At June 30, 2008

	<u>Pension Trust</u> Police/Fire	<u>Agency</u> Lake Improvement Commission
Assets		
Cash and cash equivalents	\$ 25,058	\$ 256,040
Investments	2,391	1,487,395
Interest receivable	—	5,638
Prepaid expenses.....	<u>—</u>	<u>12,441</u>
Total Assets	<u>\$ 27,449</u>	<u>\$ 1,761,514</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ —	\$ 129,636
Salaries and benefits payable	4,331	—
Due to other governments.....	<u>—</u>	<u>1,631,878</u>
Total Liabilities	<u>4,331</u>	<u>1,761,514</u>
Net Assets		
Reserved for pensions.....	<u>23,118</u>	<u>—</u>
Total Liabilities and Net Assets	<u>\$ 27,449</u>	<u>\$ 1,761,514</u>

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

Year Ended June 30, 2008

	<u>Pension Trust</u> <u>Police/Fire</u>
Additions	
Transfers from special levy fund.....	\$ 196,917
Deductions	
Public safety	<u>196,965</u>
Change in Net Assets	(48)
Net Assets - Beginning of Year	<u>23,166</u>
Net Assets - End of Year	<u>\$ 23,118</u>

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The City of Storm Lake is a political subdivision of the State of Iowa located in Buena Vista County. It was first incorporated in 1873 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under a Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer, storm water and landfill utilities for its citizens.

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

Reporting Entity

For financial reporting purposes, the City of Storm Lake has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City of Storm Lake has no component units that need to be included in these financial statements.

Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of net assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenue are reported instead as general revenue.

Fund Financial Statements

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

The City reports the following major governmental funds:

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

The *Road Use Tax Fund* is used to account for taxes received from the state to be used for road construction and maintenance.

The *Local Option Sales Tax Fund* is used to account for the revenue from the tax authorized by referendum for capital improvements, equipment and community programs and services.

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

The *Capital Projects Fund* is used to account for all resources used in the acquisition and construction of capital assets (other than those financed by proprietary fund types and special revenue funds).

The City reports the following major proprietary funds:

Enterprise

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

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

The *King's Pointe Fund* accounts for the construction and operation of a hotel facility.

The City also reports the following additional proprietary funds:

Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost-reimbursement basis.

(1) Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property tax, local option sales tax, intergovernmental revenue (shared revenue, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenue. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenue.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except for agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Using prescribed procedures, the City amended its budget once during the year ended June 30, 2008.

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

During the year ended June 30, 2008, disbursements exceeded the budgeted amounts in general government and debt service.

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

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Cash and Cash Equivalents

The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments.

For purposes of the statement of cash flows, all short-term cash investments that are high liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Receivables and Payables

Property taxes receivable are recognized on the levy or lien date, which is the date that the tax asking is certified by the City to the County Board of Supervisors. Current year delinquent property taxes receivable represent unpaid taxes from the current year. The succeeding year property taxes receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property taxes receivable have been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Property tax revenue became due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments, is based on January 1, 2006 assessed property valuations, is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in March, 2007.

Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2008, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

Inventories and Prepays

Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased. The cost of governmental fund-type inventory is recorded as an expenditure when purchased. Inventories and prepaids recorded in the governmental fund types do not reflect current appropriable resources; therefore, an equivalent portion of fund balance is reserved.

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Restricted Assets

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

Interest Capitalized

Construction period interest for business-type activities is capitalized. For projects paid for with taxable bonds, interest is capitalized at the amount of cash paid at the effective interest rate to the earlier of the date the asset is placed in service or year end. No amounts were capitalized in 2008.

Capital Assets

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

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

Asset Class	Estimated Useful Lives (In Years)
Buildings and improvements	20 - 40 Years
Equipment and vehicles	5 - 20 Years
Infrastructure	20 Years

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

Compensated Absences

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Deferred Revenue

Although certain revenue is measurable, it is not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of property tax receivables and grants and cost sharing receivables not collected within 60 days after year end. Deferred revenue in the statement of net assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied and other project-related amounts not received within 60 days after year end.

Long-Term Liabilities

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

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance

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

Net Assets

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

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

Estimates and Assumptions

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

Notes to the Financial Statements

(2) Cash and Investments

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

On June 30, 2008, the City had investments in the Iowa Public Agency Investment Trust which were valued at an amortized cost of \$1,000,000 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

The City's cash and investments at June 30, 2008 were as follows:

Cash on hand	\$ 10,352
Deposits on demand.....	259,062
Deposits with employee health benefit administration.....	9,338
Money market accounts	3,544,313
Time deposits	<u>6,791,123</u>
Total	<u>\$ 10,614,188</u>

(3) Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2008 is as follows:

Due From/To	Interfund Receivables	Interfund Payables
General Fund.....	\$ 50,504	\$ 59,903
Proprietary Funds		
Water	800,000	—
Wastewater	393,987	—
King's Pointe	<u>59,903</u>	<u>1,244,491</u>
	<u>\$ 1,304,394</u>	<u>\$ 1,304,394</u>

These balances result from interfund advances made to finance projects or enterprise operations. Repayments will be made as time deposits mature or enterprise operations become profitable.

Notes to the Financial Statements

(4) Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance - Beginning of Year (Restated)	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 1,430,953	\$ —	\$ —	\$ 1,430,953
Construction in progress	<u>9,376,748</u>	<u>2,395,996</u>	<u>10,479,361</u>	<u>1,293,383</u>
Total Capital Assets Not Being Depreciated.....	<u>10,807,701</u>	<u>2,395,996</u>	<u>10,479,361</u>	<u>2,724,336</u>
Capital Assets Being Depreciated				
Buildings.....	5,833,317	113,275	—	5,946,592
Improvements other than buildings	4,539,017	7,717,340	196,946	12,059,411
Equipment and vehicles	3,883,178	221,264	12,924	4,091,518
Infrastructure, road network	<u>2,261,088</u>	<u>2,659,141</u>	<u>—</u>	<u>4,920,229</u>
Total Capital Assets Being Depreciated.....	<u>16,516,600</u>	<u>10,711,020</u>	<u>209,870</u>	<u>27,017,750</u>
Less Accumulated Depreciation for				
Buildings.....	2,238,000	182,574	—	2,420,574
Improvements other than buildings	2,614,688	374,392	196,946	2,792,134
Equipment and vehicles	2,120,719	266,221	12,924	2,374,016
Infrastructure, road network	<u>247,618</u>	<u>246,011</u>	<u>—</u>	<u>493,629</u>
Total Accumulated Depreciation	<u>7,221,025</u>	<u>1,069,198</u>	<u>209,870</u>	<u>8,080,353</u>
Net Capital Assets Being Depreciated	<u>9,295,575</u>	<u>9,641,822</u>	<u>—</u>	<u>18,937,397</u>
Net Governmental Activities				
Capital Assets	<u>\$ 20,103,276</u>	<u>\$ 12,037,818</u>	<u>\$ 10,479,361</u>	<u>\$ 21,661,733</u>

Notes to the Financial Statements

(4) Capital Assets

	Balance - Beginning of Year (Restated)	Increases	Decreases	Balance - End of Year
Business-Type Activities				
Capital Assets Not Being Depreciated				
Land	\$ 9,200	\$ —	\$ —	\$ 9,200
Construction in progress*	<u>21,931,606</u>	<u>1,776,770</u>	<u>23,025,946</u>	<u>682,430</u>
Total Capital Assets Not Being Depreciated.....	<u>21,940,806</u>	<u>1,776,770</u>	<u>23,025,946</u>	<u>691,630</u>
Capital Assets Being Depreciated				
Buildings and improvements	9,763,668	19,939,498	—	29,703,166
Equipment and vehicles	605,834	1,986,298	6,323	2,585,809
Infrastructure, water and sewer network*	<u>19,549,852</u>	<u>1,543,490</u>	<u>—</u>	<u>21,093,342</u>
Total Capital Assets Being Depreciated	<u>29,919,354</u>	<u>23,469,286</u>	<u>6,323</u>	<u>53,382,317</u>
Less Accumulated Depreciation for				
Buildings.....	7,507,718	809,966	—	8,317,684
Equipment and vehicles	350,205	402,010	—	752,215
Infrastructure, water and sewer network.....	<u>8,148,382</u>	<u>743,684</u>	<u>—</u>	<u>8,892,066</u>
Total Accumulated Depreciation	<u>16,006,305</u>	<u>1,955,660</u>	<u>—</u>	<u>17,961,965</u>
Net Capital Assets Being Depreciated	<u>13,913,049</u>	<u>21,513,626</u>	<u>6,323</u>	<u>35,420,352</u>
Net Business-Type Activities				
Capital Assets	<u>\$ 35,853,855</u>	<u>\$ 23,290,396</u>	<u>\$ 23,032,269</u>	<u>\$ 36,111,982</u>

*Restated for assets placed in service prior to July 1, 2007. See Note 14.

Depreciation expense was charged by the City as follows for the year ended June 30, 2008:

Governmental Activities

Public safety	\$ 170,381
Public works	453,025
Culture and recreation	384,791
General government.....	61,001
Total Governmental Activities Depreciation Expense	<u>\$ 1,069,198</u>

Business-Type Activities

Water	\$ 677,045
Wastewater.....	466,939
Storm water	55,374
Landfill	231
King's Pointe.....	756,071
Total Business-Type Activities Depreciation Expense	<u>\$ 1,955,660</u>

Notes to the Financial Statements

(5) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue	
	Emergency Levy	\$ 56,607
	Local Option Sales Tax	3,000
	Proprietary	
	Water	5,000
	Wastewater	5,000
		<u>69,607</u>
Special Revenue	Special Revenue	
Road Use	Local Option Sales Tax	<u>29,000</u>
Special Revenue	Special Revenue	
Expendable Gift Special Revenue	Local Option Sales Tax	<u>4,000</u>
Debt Service	General	65,557
	Special Revenue	
	Tax Increment Financing	96,479
	Local Option Sales Tax	417,080
	Proprietary	
	King's Pointe	<u>417,723</u>
		<u>996,839</u>
Capital Projects	General	150,000
	Special Revenue	
	Road Use	192,500
	Local Option Sales Tax	917,087
	Debt Service	325,000
	Proprietary	
	Storm Water	169,227
	Landfill	30,000
		<u>1,783,814</u>
Proprietary	Proprietary	
Water	King's Pointe	<u>1,013</u>
Proprietary	Proprietary	
Wastewater	Water	117,830
	King's Pointe	499
		<u>118,329</u>
Proprietary	Capital Projects	402,049
King's Pointe	Proprietary	
	Water	356,313
	Wastewater	120,000
		<u>878,362</u>
Pension Trust	Special Revenue	
Police/Fire	Special Levy	<u>196,917</u>
		<u>\$ 4,077,881</u>

Notes to the Financial Statements

(6) Long-Term Debt

The following is a summary of the changes in long-term debt for the year ended June 30, 2008:

	Balance - Beginning of Year	Additions	Retirements	Balance - End of Year	Amount Due in the Next Year	Range of Interest Rates
Governmental Activities						
General obligation bonds	\$ 19,515,000	\$ 325,000	\$ 340,000	\$ 19,500,000	\$ 405,000	3.75 - 5.75%
Compensated absences ..	260,339	273,624	260,339	273,624	273,624	N/A
Totals	\$ 19,775,339	\$ 598,624	\$ 600,339	\$ 19,773,624	\$ 678,624	
Business-Type Activities						
Revenue bonds.....	\$ 7,682,888	\$ 306,798	\$ 363,210	\$ 7,626,476	\$ 372,000	3.00%
Compensated absences ..	73,880	76,823	73,880	76,823	28,434	N/A
Totals	\$ 7,756,768	\$ 383,621	\$ 437,090	\$ 7,703,299	\$ 400,434	

Governmental Activities

General Obligation Bonds

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

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

Business-Type Activities

Revenue Bonds

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

Annual debt service requirements to maturity for general obligation bonds and revenue bonds at June 30, 2008 are as follows:

Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>General Obligation Bonds</u>		<u>Revenue Bonds</u>			
	Principal	Interest	Principal	Interest	Principal	Interest
2009.....	\$ 405,000	\$ 945,411	\$ 372,000	\$ 231,900	\$ 777,000	\$ 1,177,311
2010.....	445,000	928,699	384,000	220,740	829,000	1,149,439
2011.....	650,000	910,200	395,000	209,220	1,045,000	1,119,420
2012.....	660,000	881,238	406,000	197,370	1,066,000	1,078,608
2013.....	725,000	855,269	419,000	185,190	1,144,000	1,040,459
2014-2018 ..	4,160,000	3,749,512	2,288,000	365,490	6,448,000	4,115,002
2019-2023 ..	5,420,000	2,663,832	2,652,000	365,490	8,072,000	3,029,322
2024-2028 ..	7,035,000	885,525	710,476	37,140	7,745,476	922,665
	19,500,000	11,819,686	7,626,476	1,812,540	27,126,476	13,632,226
Net unamor- tized bond discount ...	121,082	—	76,925	—	198,007	—
Net	\$ 19,378,918	\$ 11,819,686	\$ 7,549,551	\$ 1,812,540	\$ 26,928,469	\$ 13,632,226

Notes to the Financial Statements

(6) Long-Term Debt

Interest expense recorded in governmental fund types totaled \$953,546 for the year ended June 30, 2008. Interest expense recorded in proprietary fund types totaled \$232,020.

Revenue Bond Resolution Requirements

The business-type activities revenue bond resolutions contain significant limitations and restrictions on annual debt service requirements, require minimum amounts to be maintained in various restricted accounts to provide for payment of principal and interest and require minimum revenue bond coverage. At June 30, 2008, the City was in compliance with these covenants.

(7) Jointly Governed Organizations

The City participates in a jointly governed organization agreement with the Buena Vista County Solid Waste Commission, a political subdivision created under Chapter 28E of the Code of Iowa. The purpose of the Commission includes providing economic disposal of solid waste produced or generated within the member county and cities.

The City's ongoing financial interest in the jointly governed organization consists of the operation of the landfill and other solid waste collection and disposal operations. The City collects landfill fees as a part of its regular utility billings. The Commission then bills the City quarterly for its operations. This fee is computed for each municipality on a per capita basis. For the year ended June 30, 2008 this fee totaled \$312,356.

Copies of the Commission's financial statements are available from the City Clerk at the City of Alta, or from the State Auditor's Office.

The City participates in a jointly governed organization agreement with the Lake Improvement Commission, a political subdivision created under Chapter 28E of the Code of Iowa. The financial information for the Commission is reflected as an agency fund in these financial statements. The purpose of the Commission is to finance and effect a continued dredging of the Lake Storm Lake.

Copies of the Commission's financial statements are available from the City Clerk at City of Storm Lake, or from the State Auditor's Office.

The City also participates in several jointly governed organizations for which the City is not financially accountable, or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following Boards or Commissions: Buena Vista County Assessor's Conference Board, Buena Vista County Emergency Management Commission, Buena Vista County Communications Commission, Joint E911 Service Board and Region V Drug Task Force.

Notes to the Financial Statements

(8) Pension and Retirement Benefits

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, West Des Moines, Iowa 50263.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2008, 2007 and 2006 were \$196,917, \$192,085 and \$190,790, respectively, equal to the required contribution for each year.

Iowa Public Employees Retirement System

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

Plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$98,532, \$86,730 and \$87,548, respectively, equal to the required contributions for each year.

ICMA Retirement Plan

The Chief of Police, City Administrator and City Development Director are covered under the nationwide retirement plan offered by the International City Manager's Association (ICMA). Contributions required by the employer are 12% of the annual salary for the Chief of Police, and \$8,000 less the City's IPERS contribution per year for the City Administrator and \$2,000 per year for the City Development Director.

The City's responsibility is limited to payment of contributions required by the established rates. The employer's contribution paid by the City for the year ended June 30, 2008 totaled \$14,008.

(9) Construction Contracts and Commitments

The City has entered into the following contracts which were not complete as of June 30, 2008:

	Total Project	Portion Completed	Remaining Commitment
Airport parking lot	\$ 171,139	\$ 9,190	\$ 161,949
West Lakeshore Drive Street Project	648,213	56,800	591,413
AWAYSIS Family Playground	318,020	312,730	5,290
Beach playground and lawn	<u>1,556,685</u>	<u>1,532,053</u>	<u>24,632</u>
	<u>\$ 2,694,057</u>	<u>\$ 1,910,773</u>	<u>\$ 783,284</u>

Notes to the Financial Statements

(10) Commitments

The City has entered into an agreement for the operation and maintenance of the City's wastewater treatment facilities through June, 2013, with the fee to be negotiated yearly. The fee for the year ending June 30, 2009 is \$58,485 per month.

The City has entered into an agreement for the operations and maintenance of the City's water and water treatment facilities through June, 2013, with the fee to be negotiated yearly. The fee for the year ending June 30, 2009 is \$67,118 per month.

The City has entered into an agreement for the management of the airport for the year ending June 30, 2009 for \$2,868 per month.

The City has entered into an agreement for the operation and maintenance of the City's King's Pointe Waterpark Resort facility through August 29, 2012, with the base management fee adjusted yearly based on the inflation rate. The base management fee for the year ending June 30, 2009 is \$8,795 per month with an additional incentive management fee of 1.5% of gross receipts for the first two full fiscal years once the City has been fully reimbursed for cash contributions used for operations. Thereafter, the incentive management fee shall be equal to the first \$25,000 of net available cash for said fiscal year, plus 25% of the net available cash over and above \$25,000 for said fiscal year. No incentive fees were incurred or paid during the year ended June 30, 2008.

The City has entered into an agreement for the operation and maintenance of the City's Outdoor Waterpark facility through June 21, 2012, with the base management fee to be negotiated yearly. The base management fee for the year ending June 30, 2009 is \$4,140 each month for five months of operation (May, June, July, August and September).

(11) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductible and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Effective August 1, 1983, the City adopted a plan of self-insurance for employee's health benefits. Deposits are made to the Employee Health Benefit Fund to pay employee claims. An excess coverage insurance policy covers individual claims over \$20,000, or total group claims exceeding 125% of expected claims.

An actuarial study of the adequacy of reserves, rates and financial condition of the Employee Health Benefit Fund was performed for the plan year January 1, 2007 to December 31, 2007. The study included census of covered members as of December 31, 2007, a summary of aggregate and specific excess loss reinsurance coverage, monthly claim expense information, a summary of revenue and expenses and review of the plan document summary description.

Notes to the Financial Statements

(11) Risk Management

Following is a financial analysis of the plan for the year ended June 30, 2008. Included in this analysis is an estimate of the amount needed at the end of the plan year for incurred but not paid claims.

Net assets - July 1, 2007	\$ 397,581
Contributions received.....	406,789
Interest earned	15,428
Other sources of revenue	<u>1,039</u>
	<u>820,837</u>
Claims paid.....	226,318
Aggregate stop-loss premiums and other charges.....	<u>151,907</u>
	<u>378,225</u>
Net assets - June 30, 2008.....	442,612
Reserved for estimated incurred but unpaid claims	<u>38,450</u>
Unreserved Funds	<u>\$ 404,162</u>

(12) Deferred Compensation

The City offers its employees deferred compensation plans as allowed by Internal Revenue Code Section 457. The plan allows City employees to defer a portion of the current salary until future years. The employee becomes eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

The City has adopted GASB Statement 32 and does not report the assets of the plans on its balance sheet.

(13) Conduit Debt Obligations

To provide for the construction of additions to the library, dormitories and a recreation facility at Buena Vista University, the City has issued a series of Higher Education Facilities Revenue Bonds. In addition, the City issued Elderly Housing Revenue Bonds for the construction of dietary and maintenance facilities and an addition of a 38-unit independent living facility at Methodist Manor Retirement Community. These bonds are special limited obligations of the City, payable solely from and secured by a pledge of revenue to be received by the university and the care facility. The bonds do not constitute a debt or pledge of the faith and credit of the City, and accordingly, have not been reported in the accompanying financial statements.

Notes to the Financial Statements

(13) Conduit Debt Obligations

A summary of conduit debt obligations is as follows:

Obligation	Originally Issued	Date of Issue	Balance Outstanding June 30, 2008
Higher Education Facilities Revenue Bonds	\$7,630,000	5-24-00	\$ 5,105,000
Elderly Housing Revenue Bonds.....	4,565,000	6-1-07	4,565,000
Elderly Housing Revenue Bonds.....	5,325,000	10-1-03	5,005,000
			<u>\$ 14,675,000</u>

(14) Prior Period Adjustment

Previous audited financial statements did not include certain asset additions because they had been expensed in prior years. Additionally, some construction in progress was incorrectly reported as infrastructure assets. The following is a summary of the affects of this change.

	Wastewater Fund
Fund balance at June 30, 2007, as previously reported.....	\$ 5,650,903
Prior year asset additions	69,880
Fund Balance at June 30, 2007, as Restated	<u>\$ 5,720,783</u>

Business-Type Activities

Capital Assets

Infrastructure, water and sewer network, as previously reported - June 30, 2007 ..	\$ 19,848,091
Prior year additions.....	69,880
Prior year - construction in progress.....	(368,119)
As Restated - June 30, 2007	<u>\$ 19,549,852</u>

Construction in Progress

Construction in progress, as previously reported - June 30, 2007	\$ 21,563,487
Prior year - construction in progress.....	368,119
	<u>\$ 21,931,606</u>

Net Assets

Net assets at June 30, 2007, as previously reported	\$ 34,518,266
Prior period adjustment	69,880
Net Assets at June 30, 2007, as Restated	<u>\$ 34,588,146</u>

Required Supplementary Information

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

Year Ended June 30, 2008

	Governmental Funds - Actual	Proprietary Funds - Actual	Less Fund Not Required to be Budgeted	Net	Budgeted Amounts		Final to Net
					Original	Final	
Receipts							
Property taxes	\$ 2,807,035	\$ —	\$ —	\$ 2,807,035	\$ 2,734,336	\$ 2,734,336	\$ 72,699
Tax increment financing collections.....	132,066	—	—	132,066	129,584	129,584	2,482
Other city taxes.....	1,171,054	—	—	1,171,054	1,267,525	1,267,525	(96,471)
Licenses and permits.....	250,965	—	—	250,965	167,950	240,000	10,965
Use of money and property	354,461	247,055	45,855	555,661	374,110	374,110	181,551
Intergovernmental.....	1,801,329	1,357,603	—	3,158,932	2,600,378	3,100,000	58,932
Charges for services.....	1,903,864	7,472,087	653,546	8,722,405	9,756,134	9,756,134	(1,033,729)
Miscellaneous.....	460,562	498,644	638	958,568	463,572	1,273,572	(315,004)
Total Receipts	8,881,336	9,575,389	700,039	17,756,686	17,493,589	18,875,261	(1,118,575)
Disbursements							
Public safety	2,509,980	—	310,137	2,199,843	2,138,822	2,293,822	93,979
Public works	1,144,974	—	130,128	1,014,846	957,365	1,087,365	72,519
Health and social services.....	14,221	—	—	14,221	15,700	15,700	1,479
Culture and recreation.....	1,494,485	—	74,462	1,420,023	1,304,163	1,544,163	124,140
Community and economic development	340,073	—	1,446	338,627	382,531	382,531	43,904
General government.....	346,441	—	21,688	324,753	302,759	322,759	(1,994)
Debt service.....	1,301,125	—	7,229	1,293,896	1,287,740	1,288,090	(5,806)
Capital projects.....	3,346,065	—	177,841	3,168,224	4,251,587	4,251,587	1,083,363
Business-type activities	—	11,601,414	—	11,601,414	10,294,751	11,804,751	203,337
Total Disbursements	10,497,364	11,601,414	722,931	21,375,847	20,935,418	22,990,768	1,614,921
Receipts Over (Under) Disbursements.....	(1,616,028)	(2,026,025)	(22,892)	(3,619,161)	(3,441,829)	(4,115,507)	496,346
Other Financing Sources, Net	470,144	(309,054)	—	161,090	725,000	—	161,090
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(1,145,884)	(2,335,079)	(22,892)	(3,458,071)	(2,716,829)	(4,115,507)	657,436
Balances - Beginning of Year	5,478,677	8,110,423	897,982	12,691,118	11,685,400	11,685,400	1,005,718
Balances - End of Year.....	\$ 4,332,793	\$ 5,775,344	\$ 875,090	\$ 9,233,047	\$ 8,968,571	\$ 7,569,893	\$ 1,663,154

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except for agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities and nonprogram. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects fund, permanent fund and enterprise funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$2,055,350 and budgeted receipts by \$1,381,672. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the general government and debt service functions.

Schedule of Budgetary Comparison - Budget to GAAP Reconciliation ▬

Year Ended June 30, 2008

	Governmental Fund Types		
	Cash Basis	Accrual Adjustments	GAAP Basis
Revenue	\$ 8,881,336	\$ (1,437,399)	\$ 7,443,937
Expenditures.....	<u>10,497,364</u>	<u>(1,183,323)</u>	<u>9,314,041</u>
Net	(1,616,028)	(254,076)	(1,870,104)
Other financing sources (uses).....	470,144	(83,140)	387,004
Beginning fund balances	<u>5,478,677</u>	<u>821,495</u>	<u>6,300,172</u>
Ending Fund Balances.....	<u>\$ 4,332,793</u>	<u>\$ 484,279</u>	<u>\$ 4,817,072</u>

	Proprietary Fund Types		
	Cash Basis	Accrual Adjustments	GAAP Basis
Revenue	\$ 9,575,389	\$ (137,628)	\$ 9,437,761
Expenditures.....	<u>11,601,414</u>	<u>(1,594,521)</u>	<u>10,006,893</u>
Net	(2,026,025)	1,456,893	(569,132)
Other financing sources (uses).....	(309,054)	84,153	(224,901)
Beginning fund balances (restated - Note 14)	<u>8,110,423</u>	<u>27,355,615</u>	<u>35,466,038</u>
Ending Fund Balances.....	<u>\$ 5,775,344</u>	<u>\$ 28,896,661</u>	<u>\$ 34,672,005</u>

Other Supplementary Information 

Combining Balance Sheet Schedule - Nonmajor Governmental Funds

At June 30, 2008

	Special Revenue									Perman-ent Emma Myers Trust	Total	
	Special Levy	Tort Insurance	Emer- gency Levy	Tax Increment Financing	Crime Pre- vention	Senior Center	Library Special Revenue	Dredging	Expend- able Gift Special Revenue			Law Enforce- ment
Assets												
Cash and cash equivalents	\$ 131,822	\$ 4,038	\$ —	\$ 10,749	\$ 10,534	\$ 650	\$ 69,709	\$ 9,842	\$ 6,802	\$ 71	\$ 2,653	\$ 246,870
Investments	—	390,133	—	42,843	15,929	—	51,228	—	—	2,583	—	502,716
Receivables												
Property Taxes												
Current year delinquent.....	—	725	592	—	—	—	—	—	—	—	—	1,317
Succeeding year	632,513	66,676	59,696	—	—	—	—	—	—	—	—	758,885
Tax Increment Financing												
Current year delinquent.....	7,745	—	—	625	—	—	—	—	—	—	—	8,370
Succeeding year	—	—	—	284,253	—	—	—	—	—	—	—	284,253
Accrued interest	—	1,330	—	—	86	—	324	—	—	27	—	1,767
Due from other governments.....	—	—	—	—	—	—	—	—	10,344	—	—	10,344
Prepaid items.....	75,850	60,701	—	—	—	—	—	6,531	—	—	—	143,082
Total Assets	\$ 847,930	\$ 523,603	\$ 60,288	\$ 338,470	\$ 26,549	\$ 650	\$ 121,261	\$ 16,373	\$ 17,146	\$ 2,681	\$ 2,653	\$ 1,957,604
Liabilities and Fund Balances												
Liabilities												
Accounts payable	\$ 4,221	\$ 4,038	\$ —	\$ —	\$ 44	\$ —	\$ 2,667	\$ 249	\$ 11,404	\$ —	\$ 35	\$ 22,658
Salaries and benefits payable	6,432	—	—	—	—	—	—	5,962	—	—	—	12,394
Deferred Revenue												
Succeeding year property taxes.....	632,513	66,676	59,696	—	—	—	—	—	—	—	—	758,885
Succeeding year tax increment financing	—	—	—	284,253	—	—	—	—	—	—	—	284,253
Total Liabilities	643,166	70,714	59,696	284,253	44	—	2,667	6,211	11,404	—	35	1,078,190
Fund Balances												
Reserved for inventories and prepaids.....	75,850	60,701	—	—	—	—	—	6,531	—	—	—	143,082
Unreserved												
Special revenue funds.....	128,914	392,188	592	54,217	26,505	650	118,594	3,631	5,742	2,681	—	733,714
Permanent fund.....	—	—	—	—	—	—	—	—	—	—	2,618	2,618
Total Fund Balances	204,764	452,889	592	54,217	26,505	650	118,594	10,162	5,742	2,681	2,618	879,414
Total Liabilities and Fund Balances	\$ 847,930	\$ 523,603	\$ 60,288	\$ 338,470	\$ 26,549	\$ 650	\$ 121,261	\$ 16,373	\$ 17,146	\$ 2,681	\$ 2,653	\$ 1,957,604

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

Year Ended June 30, 2008

	Special Revenue										Perm- anent Emma Myers Trust	Total
	Special Levy	Tort Insurance	Emer- gency Levy	Tax Increment Financing	Crime Pre- vention	Senior Center	Library Special Revenue	Dredging	Expend- able Gift Special Revenue	Law Enforce- ment		
Revenue												
Property tax	\$ 735,589	\$ 68,133	\$ 55,122	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 858,844
Tax increment financing collections.....	—	—	—	129,377	—	—	—	—	—	—	—	129,377
Other city tax	19,036	1,877	1,426	—	—	—	—	—	—	—	—	22,339
Use of money and property	—	4,704	—	—	1,200	650	7,944	—	—	563	—	15,061
Intergovernmental.....	—	—	—	—	—	—	4,988	149,009	16,254	—	—	170,251
Miscellaneous.....	29,954	4,257	—	—	1,747	—	17,249	—	1,060	1,098	—	55,365
Total Revenue.....	784,579	78,971	56,548	129,377	2,947	650	30,181	149,009	17,314	1,661	—	1,251,237
Expenditures												
Public safety	306,891	—	—	—	3,713	—	—	—	—	12,030	—	322,634
Public works	102,007	—	—	—	—	—	—	—	—	—	—	102,007
Culture and recreation.....	107,787	—	—	—	—	—	11,411	—	—	—	35	119,233
Community and economic development	—	—	—	—	—	—	—	139,754	23,224	—	—	162,978
General government.....	36,420	101,962	—	—	—	—	—	—	—	—	—	138,382
Total Expenditures.....	553,105	101,962	—	—	3,713	—	11,411	139,754	23,224	12,030	35	845,234
Revenue Over (Under) Expenditures.....	231,474	(22,991)	56,548	129,377	(766)	650	18,770	9,255	(5,910)	(10,369)	(35)	406,003
Other Financing Sources (Uses)												
Transfers in.....	—	—	—	—	—	—	—	—	4,000	—	—	4,000
Transfers out	(196,917)	—	(56,607)	(96,479)	—	—	—	—	—	—	—	(350,003)
Total Other Financing Sources (Uses).....	(196,917)	—	(56,607)	(96,479)	—	—	—	—	4,000	—	—	(346,003)
Revenue and Other Financing Sources Over (Under)												
Expenditures and Other Financing Uses.....	34,557	(22,991)	(59)	32,898	(766)	650	18,770	9,255	(1,910)	(10,369)	(35)	60,000
Fund Balance - Beginning of Year.....	170,207	475,880	651	21,319	27,271	—	99,824	907	7,652	13,050	2,653	819,414
Fund Balance - End of Year.....	\$ 204,764	\$ 452,889	\$ 592	\$ 54,217	\$ 26,505	\$ 650	\$ 118,594	\$ 10,162	\$ 5,742	\$ 2,681	\$ 2,618	\$ 879,414

Combining Schedule of Net Assets - Nonmajor Proprietary Funds

At June 30, 2008

	<u>Enterprise Funds</u>		
	<u>Sanitation</u>	<u>Storm Water</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 81,887	\$ 486,397	\$ 568,284
Investments	169,184	—	169,184
Receivables			
Customer accounts and unbilled usage	39,730	32,257	71,987
Accrued interest	854	2,024	2,878
Inventories	—	1,145	1,145
Prepaid expenses	101	1,193	1,294
Total Current Assets	<u>291,756</u>	<u>523,016</u>	<u>814,772</u>
Restricted Assets			
Investments	<u>—</u>	<u>30,000</u>	<u>30,000</u>
Noncurrent Assets			
Loan fees, net of accumulated amortization....	—	10,350	10,350
Capital assets	<u>231</u>	<u>1,045,986</u>	<u>1,046,217</u>
Total Noncurrent Assets	<u>231</u>	<u>1,056,336</u>	<u>1,056,567</u>
Total Assets	<u>\$ 291,987</u>	<u>\$ 1,609,352</u>	<u>\$ 1,901,339</u>
Liabilities and Net Assets			
Liabilities			
Accounts payable	\$ 84	\$ 874	\$ 958
Salaries and benefits payable	1,582	2,360	3,942
Accrued interest payable	—	1,750	1,750
Compensated absences	1,283	57	1,340
Payable from Restricted Assets			
Revenue bonds payable	—	30,000	30,000
Total Current Liabilities	<u>2,949</u>	<u>35,041</u>	<u>37,990</u>
Long-Term Liabilities			
Revenue notes payable	—	667,000	667,000
Compensated absences	2,006	88	2,094
Total Long-Term Liabilities	<u>2,006</u>	<u>667,088</u>	<u>669,094</u>
Total Liabilities	<u>4,955</u>	<u>702,129</u>	<u>707,084</u>
Net Assets			
Restricted for revenue note repayment	—	30,000	30,000
Reserved for inventory and prepaids	101	2,338	2,439
Unrestricted, designated for storm sewer improvements	—	435,185	435,185
Undesignated	<u>286,931</u>	<u>439,700</u>	<u>726,631</u>
Total Net Assets	<u>287,032</u>	<u>907,223</u>	<u>1,194,255</u>
Total Liabilities and Net Assets	<u>\$ 291,987</u>	<u>\$ 1,609,352</u>	<u>\$ 1,901,339</u>

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

Year Ended June 30, 2008

	Enterprise Funds		
	Sanitation	Storm Water	Total
Operating Revenue			
Charges for services.....	\$ 379,748	\$ 215,832	\$ 595,580
Miscellaneous.....	403	1,577	1,980
Total Operating Revenue	380,151	217,409	597,560
Operating Expenses			
Business-Type Activities			
Cost of sales and services.....	401,301	86,962	488,263
Depreciation and amortization	231	55,999	56,230
Miscellaneous	—	1,810	1,810
Total Operating Expenses	401,532	144,771	546,303
Operating Income (Loss)	(21,381)	72,638	51,257
Nonoperating Income (Expenses)			
Interest income	11,268	35,813	47,081
Interest expense	—	(17,014)	(17,014)
Total Nonoperating Income (Expenses)	11,268	18,799	30,067
Income Before Contributions and Transfers	(10,113)	91,437	81,324
Transfers out	(30,000)	(169,227)	(199,227)
Change in Net Assets	(40,113)	(77,790)	(117,903)
Net Assets - Beginning of Year	327,145	985,013	1,312,158
Net Assets - End of Year	\$ 287,032	\$ 907,223	\$ 1,194,255

Combining Schedule of Cash Flows - Nonmajor Proprietary Funds

Year Ended June 30, 2008

	<u>Enterprise Funds</u>		
	Sanitation	Storm Water	Total
Cash Flows From Operating Activities			
Receipts from customers.....	\$ 371,248	\$ 201,918	\$ 573,166
Cash paid for personal services	(44,205)	(34,567)	(78,772)
Cash paid to suppliers	(357,440)	(121,364)	(478,804)
Net Cash Provided by (Used in) Operating Activities.....	<u>(30,397)</u>	<u>45,987</u>	<u>15,590</u>
Cash Flows From Noncapital Financing Activities			
Advances to other funds.....	—	(199,227)	(199,227)
Cash Flows From Capital and Related Financing Activities			
Repayment of revenue bonds.....	(30,000)	(1,210)	(31,210)
Interest payments	—	(17,056)	(17,056)
Net Cash Used in Capital and Related Financing Activities.....	<u>(30,000)</u>	<u>(18,266)</u>	<u>(48,266)</u>
Cash Flows From Investing Activities			
(Purchase) redemption of investments.....	22,997	(30,000)	(7,003)
Interest on investments	14,299	33,789	48,088
Net Cash Provided by Investing Activities.....	<u>37,296</u>	<u>3,789</u>	<u>41,085</u>
Net Decrease in Cash and Cash Equivalents	(23,101)	(167,717)	(190,818)
Cash and Cash Equivalents at Beginning of Year.....	104,988	654,114	759,102
Cash and Cash Equivalents at End of Year	<u>\$ 81,887</u>	<u>\$ 486,397</u>	<u>\$ 568,284</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating income (loss).....	\$ (21,381)	\$ 72,638	\$ 51,257
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities			
Depreciation.....	231	55,374	55,605
Amortization.....	—	625	625
Increase in accounts receivable and unbilled usage ...	(8,903)	(15,491)	(24,394)
Increase in inventories.....	—	(845)	(845)
(Increase) decrease in prepaid expenses.....	(12)	36	24
Decrease in accounts payable.....	(546)	(64,262)	(64,808)
Increase in salaries and benefits payable.....	612	368	980
Decrease in compensated absences.....	(398)	(2,456)	(2,854)
Net Cash Provided by (Used in) Operating Activities	<u>\$ (30,397)</u>	<u>\$ 45,987</u>	<u>\$ 15,590</u>

Schedule of Changes in Assets and Liabilities - Agency Fund

Year Ended June 30, 2008

	Lake Improvement Commission			Balance June 30, 2008
	Balance July 1, 2007	Additions	Deletions	
Assets				
Cash and cash equivalents	\$ 1,211,688	\$ 1,408,336	\$ 876,589	\$ 1,743,435
Interest receivable	—	5,638	—	5,638
Due from other governments.....	11,772	—	11,772	—
Prepaid expenses.....	<u>10,575</u>	<u>12,441</u>	<u>10,575</u>	<u>12,441</u>
Total Assets	<u>\$ 1,234,035</u>	<u>\$ 1,426,415</u>	<u>\$ 898,936</u>	<u>\$ 1,761,514</u>
Liabilities				
Accounts payable	\$ 25,974	\$ 129,636	\$ 25,974	\$ 129,636
Due to other governments.....	<u>1,208,061</u>	<u>1,296,779</u>	<u>872,962</u>	<u>1,631,878</u>
Total Liabilities	<u>\$ 1,234,035</u>	<u>\$ 1,426,415</u>	<u>\$ 898,936</u>	<u>\$ 1,761,514</u>

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

Years Ended June 30, 2005 Through 2008

	2008	2007	2006	2005
Receipts				
Property tax	\$ 2,799,837	\$ 2,669,623	\$ 2,625,565	\$ 2,369,578
Tax increment financing collections	129,377	83,873	84,850	36,460
Other city tax	1,209,525	1,352,178	1,132,590	1,076,883
Licenses and permits.....	256,198	182,624	109,485	100,288
Use of money and property	383,606	759,810	693,381	298,777
Intergovernmental.....	1,070,861	2,563,765	1,535,489	2,059,008
Charges for services.....	1,150,540	487,579	430,791	472,177
Special assessments.....	—	—	—	1,343
Miscellaneous.....	<u>443,993</u>	<u>628,511</u>	<u>866,338</u>	<u>563,315</u>
Total Receipts	<u>\$ 7,443,937</u>	<u>\$ 8,727,963</u>	<u>\$ 7,478,489</u>	<u>\$ 6,977,829</u>
Disbursements				
Operating				
Public safety.....	\$ 1,996,699	\$ 1,731,813	\$ 1,747,843	\$ 1,741,482
Public works.....	1,007,552	871,683	921,209	947,440
Health and social services	14,221	12,850	10,700	9,034
Culture and recreation	1,494,431	715,125	837,193	829,871
Community and economic development.....	348,970	351,232	336,781	365,144
General government	338,702	287,970	273,172	278,934
Debt service.....	1,293,896	1,207,354	570,555	361,282
Capital projects.....	<u>2,819,570</u>	<u>7,596,287</u>	<u>3,807,559</u>	<u>2,150,456</u>
Total Disbursements	<u>\$ 9,314,041</u>	<u>\$ 12,774,314</u>	<u>\$ 8,505,012</u>	<u>\$ 6,683,643</u>

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Storm Lake, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph 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 are considered to be material weaknesses.

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

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

The current year deficiencies are as follows:

08-C-1 Bank Reconciliations

Finding - During our audit, we found that bank reconciliations were not being properly reconciled with the cash and investments reported in the general ledger. Additionally, outstanding items from the King's Pointe accounts were not properly reflected on the reconciliations.

Auditor's Recommendation - We recommend that the bank reconciliations include all outstanding items and reconcile both cash and investments to the general ledger. Further, the reconciliations should be reviewed by a member of management to ensure they are being properly completed.

City's Response - Management was aware of this issue and was working to resolve this. We will properly reconcile with both the cash and the investments in the general ledger, including all outstanding items.

Conclusion - Response accepted.

08-IC-2 Journal Entries

Finding - During our audit, we found that journal entries are not being reviewed by a member of management and proper support for the entries was not always filed with the journal entry.

Auditor's Recommendation - We recommend that all journal entries be reviewed by management. This should include reviewing the supporting documentation for the journal entry. Proper support filed with the journal entry documentation will improve the review process and will improve the City's internal controls.

City's Response - Management will implement a review process of all journal entries.

Conclusion - Response accepted.

08-IC-3 Recording of Interest Revenue

Finding - During our audit, we found that interest revenue was not always properly recorded in the general ledger.

Auditor's Recommendation - We recommend that written procedures for the recording of interest income be reviewed and improved. This will provide clarification of the recording process and will improve the City's internal controls.

City's Response - Management will clarify procedures to ensure proper recording of interest income.

Conclusion - Response accepted.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

08-C-1 Certified Budget

Finding - Disbursements during the year ended June 30, 2008 exceeded the amount budgeted in the general government and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

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

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

Auditor's Conclusion - Response accepted.

08-C-2 Questionable Disbursements - We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

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

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

08-C-5 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

To the Honorable Mayor and
Members of the City Council
Page 4

08-C-6 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

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

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

This report, a public record by law, is intended solely for the information and the use of the officials, employees and citizens of the City of Storm Lake, Iowa, and other parties to whom the City of Storm Lake, Iowa, may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
December 16, 2008