

**CITY OF LAKE MILLS**

Lake Mills, Iowa

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

June 30, 2008

With Independent Auditor's Reports

**CITY OF LAKE MILLS**

City Officials  
June 30, 2008

Prior to January 1, 2008

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

Subsequent to December 31, 2007

Robert Schreiner	Mayor	January 2010
Candy Hanna	Mayor Pro-Tem	January 2010
LeAnn Hagen	Council Member	January 2010
Duane Skellenger	Council Member	January 2012
Tony Sorenson	Council Member	January 2012
Wayne Urban*	Council Member	January 2012
Sheryl Bell	Clerk-Treasurer	Indefinite
Richard Schwarm	City Attorney	Indefinite

\* Wayne Urban resigned effective July 1, 2008 and was replaced by Steve Kvale.

## INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lake Mills, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents of this report. These financial statements are the responsibility of the City of Lake Mills' management. My responsibility is to express opinions on these financial statements based on my audit.

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

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lake Mills, Iowa, as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated October 22, 2008 on my consideration of the City of Lake Mills' internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

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

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Lake Mills' basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included on pages 25 through 31 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

S/ Stanley E. Siebke

Urbandale, Iowa  
October 22, 2008

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

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This section of the City of Lake Mills' Annual Financial Report presents management's discussion and analysis of the City's fiscal performance during the fiscal year that ended on June 30, 2008. It should be read in conjunction with the City's financial statements, which immediately follow this section.

### **2008 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental activities increased approximately 1%, or \$30,567, from Fiscal Year 2007 to Fiscal Year 2008. Grants received in FY 2008 for the First Time Homebuyer Program, was the major reason for the increase in FY 2008.
- Disbursements of the City's governmental activities increased approximately 12%, or \$250,035, in Fiscal 2008 from Fiscal 2007. The increase was mainly due to expenditures for the down payment for the Fire Truck and the First Time Homebuyer Program.
- The City's total cash basis net assets increased 4%, or \$297,005, from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities increased \$212,481 and the assets of the business type activities increased by \$84,524.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

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

## **Basis of Accounting**

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

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

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

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

### *Fund Financial Statements*

The City has two kinds of funds:

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$2,097,577 to \$2,310,058 for Fiscal Year 2008. The analysis that follows focuses on the changes in cash balances for governmental activities.

### City of Lake Mills' Changes in Net Assets Governmental Activities

	<u>2008</u>	<u>2007</u>
Receipts & Transfers:		
Program Receipts:		
Charges for Service	\$ 262,844	\$ 258,605
Operating Grants and Contributions	482,408	361,356
Capital Grants and Contributions	48,523	170,032
General Receipts:		
Property tax levied for:		
General purposes	435,176	394,188
Tax increment financing	839,293	752,995
Debt service	10,540	87,839
Local option sales tax	146,975	154,214
Unrestricted interest on investments	120,824	119,128
Sale of assets	5,950	13,711
Proceeds of Long Term Debt	99,000	0
Miscellaneous	28,421	38,319
Transfers	53,153	36,252
Total Receipts and Transfers	<u>2,533,107</u>	<u>2,386,639</u>
Disbursements:		
Public Safety	537,552	435,163
Public Works	490,300	380,796
Culture and Recreation	375,441	300,204
Community and Economic Development	316,102	209,294
General Government	95,505	79,751
Debt Service	442,778	525,228
Capital Projects	62,948	140,155
Total Disbursements	<u>2,320,626</u>	<u>2,070,591</u>
Increase in Cash Basis Net Assets	212,481	316,048
Cash Basis Net Assets beginning of year	<u>2,097,577</u>	<u>1,781,529</u>
Cash Basis Net Assets end of year	<u>\$ 2,310,058</u>	<u>2,097,577</u>

The City's total receipts for governmental activities increased approximately 6%, or \$146,468. The increase in receipts was due to: Proceeds of Long Term Debt of \$99,000 for the New Fire Truck and First Time Homebuyer Grant of \$151,110 received in Fiscal 2008. This increase was partially offset by Streetscape Assessment receipts received in 2007.

The total cost of all programs and services increased by approximately 12% or \$250,035. Public Safety was up approximately \$102,000 primarily due to the down payment for the new fire truck. Public Works was up approximately \$109,000 due to purchase of a new street sweeper, new dump truck and the City's portion of the new street in Windview Heights Subdivision. Culture and Recreation was up approximately \$75,000 due to Park expenditures for new equipment, Civic Center expenditures for the remodeling of the bathrooms, Library purchases from Savings & Memorials and increased Pool chemicals and utilities. Community and Economic Development was up approximately \$107,000 due to the First Time Homebuyer Program. Debt Service was down approximately \$82,000 due to refunding of the G.O. Sewer Improvement and Refunding Bonds, Series 1998A final payment in Fiscal 2007. Capital Projects were down approximately \$77,000 due to the Streetscape Project final payments in Fiscal 2007 offset by the North 2<sup>nd</sup> Avenue Reconstruction Project in 2008.

The City property tax rate decreased slightly for 2008. The increased residential roll-back continued to decrease the overall taxable valuation for the City.

The cost of all governmental activities this year was \$2.321 million compared to \$2.071 million last year. However, as shown in the Statement of Activities and Net Assets on pages 11-12, the amount of property taxes used to finance these activities was only \$1.285 million. Other funding came from fees paid by those directly benefited from the programs (\$262,844), by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$530,931). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2008 from \$789,993 to \$793,775, principally due to the First Time Homebuyer Grant, Park Improvements Grant, Rec Trail Grant and Assessments. The City paid for the remaining "public benefit" portion of governmental activities with \$1,285,009 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

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

	<u>2008</u>	<u>2007</u>
Receipts:		
Charges for service:		
Water	\$ 282,414	\$ 280,195
Sewer	361,858	292,862
Electric	2,862,256	2,599,260
Storm Water	51,325	0
Operating grants, contributions and restricted interest	<u>302,459</u>	<u>252,295</u>
Total Receipts	<u>3,860,312</u>	<u>3,424,612</u>
Disbursements and Transfers:		
Water	309,422	196,842
Sewer	346,487	195,517
Electric	3,050,284	2,258,648
Storm Water	16,442	0
Transfers	<u>53,153</u>	<u>36,252</u>
Total Disbursements and Transfers	<u>3,775,788</u>	<u>2,687,259</u>
Increase (decrease) in Cash Basis Net Assets	84,524	737,353
Cash Basis Net Assets beginning of year	<u>6,235,429</u>	<u>5,498,076</u>
Cash Basis Net Assets end of year	<u>\$ 6,319,953</u>	<u>6,235,429</u>

Total business type activities receipts for the fiscal year were \$3.860 million compared to \$3.424 million last year. This increase was due to an increase in interest revenue, rate increases and increased electric usage resulting in increased charge for services. Total disbursements and transfers for the fiscal year were \$3.776 million compared to \$2.687 million last year. The main reason for this increase was increases in: Salaries and Overtime, Purchased Current, Generating Fuel, Electric Operating Supplies, Repair & Maintenance of Electric Equipment, Repair & Maintenance of Electric and Sewer Lines, Engine Number 4 Repair, New Municipal Building and New Water Treatment Plant. The cash balance increased by \$84,524. The major contributing factors to the increase in cash balance were increased interest revenue, charge for service revenue adequate to provide for current expenditures and future capital outlay, and leachate revenue that is not used for normal operating expenditures.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Lake Mills completed the year, its governmental funds reported a combined fund balance of \$2,310,058, an increase of \$212,481 from last year's total of \$2,097,577. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$120,627 from the prior year to \$1,336,464. The major reason for this increase was due to funds that were received in Fiscal 2008 that will be spent in Fiscal 2009 and future maintenance.
- The Road Use Tax Fund cash balance decreased by \$72,447 to \$207,250 during the fiscal year. The decrease is due to purchase of a new street sweeper and dump truck and the City's portion of the new street in Windview Heights Subdivision.

- The Urban Renewal Tax Increment Fund cash balance increased by \$167,459 to \$262,589 during the fiscal year. This balance is accumulating to make it possible for early call of the General Obligation Tax Increment Bonds for the Aquatic Center and Streetscape Project.
- The Debt Service Fund cash balance increased \$540 to \$57,216 during the fiscal year.
- The Capital Projects Fund cash balance decreased by \$36,114 to \$280,456 during the fiscal year. The decrease is due to expenditures for the First Time Homebuyer Program that were not reimbursed by grant funds until 2009.

• **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$24,749 to \$1,197,851, due primarily to water surcharge revenues which are being reserved for the water treatment plant project.
- The Sewer Fund cash balance increased by \$126,052 to \$609,045, due primarily to receipt of leachate revenue and an increase in rates to help cover maintenance and future upgrades to the infrastructure.
- The Electric Fund cash balance decreased by \$101,160 to \$4,478,174 primarily due to expenditures for Engine Number 4 Repair and the New Municipal Building.
- The Storm Water Fund has a new cash balance of \$34,883. This is a newly created fund for the collection of revenue to be used for improvements to the Storm Water system.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 19, 2008 and resulted in an increase in disbursements related to the use of grants, donations and memorials that were received, unanticipated repairs, creation of a Storm Water Fund, and Skid Loader purchase paid by insurance proceeds.

**DEBT ADMINISTRATION**

On June 30, 2008, the City had \$2,320,000 in bonds and other long-term debt, compared to \$3,020,000 last year, as shown below.

<b>City of Lake Mills' Outstanding Debt</b>		
	As of	
	<u>6/30/2008</u>	<u>6/30/2007</u>
General Obligation Bonds	\$ 2,320,000	2,575,000
Revenue Bonds	0	445,000
Total	<u>\$ 2,320,000</u>	<u>3,020,000</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,320,000 is significantly below its constitutional debt limit of \$4,626,011.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Lake Mills' elected and appointed officials and citizens considered many factors when setting the fiscal year 2009 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's employment growth has mirrored its population growth during 1999 – 2008. The unemployment rate in Winnebago County of 10.1 percent is substantially higher than the State's unemployment rate of 4.2 percent and the National rate of 5.7 percent.

Inflation in the State for fiscal year 2008 ran close to the national level of 5 percent.

These indicators were taken into account when adopting the budget for fiscal year 2009. Amounts available for appropriation in the 2009 operating budget are \$7.747 million, an increase of 6.8% over the 2008 actual. Budgeted disbursements for 2009 increased approximately 13.9% from the 2008 actual to \$7.925 million. The main reason for the increase in amounts available and budgeted disbursement are: the North Water Treatment Plant Project, the North 2<sup>nd</sup> Avenue Reconstruction Project, the New Municipal Building and the purchase of a new Fire Truck.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$177,967 by the close of 2009.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

**CITY OF LAKE MILLS**  
Statement of Activities and Net Assets - Cash Basis  
As of and For the Year Ended June 30, 2008

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts</u> Operating Grants, Contributions, and Restricted <u>Interest</u>	<u>Capital Grants,</u> <u>Contributions,</u> <u>and Restricted</u> <u>Interest</u>
Function/Programs:				
Governmental activities:				
Public safety	\$ 537,552	6,093	28,373	0
Public works	490,300	174,342	193,007	0
Culture and recreation	375,441	76,282	75,310	0
Community and economic development	316,102	0	185,718	5,000
General government	95,505	6,127	0	0
Debt service	442,778	0	0	0
Capital projects	62,948	0	0	43,523
Total Governmental Activities	<u>2,320,626</u>	<u>262,844</u>	<u>482,408</u>	<u>48,523</u>
Business type activities:				
Water	309,422	282,414	51,757	0
Sewer	346,487	361,858	26,912	0
Electric	3,050,284	2,862,256	223,790	0
Storm water	16,442	51,325	0	0
Total Business Type Activities	<u>3,722,635</u>	<u>3,557,853</u>	<u>302,459</u>	<u>0</u>
Total	<u>\$ 6,043,261</u>	<u>3,820,697</u>	<u>784,867</u>	<u>48,523</u>

General Receipts:

  Property tax levied for:

    General purposes

    Tax increment financing

    Debt service

  Local option sales tax

  Unrestricted interest on investments

  Proceeds of long-term debt

  Sale of assets

  Miscellaneous

  Transfers

    Total General Receipts

    Change in Cash Basis Net Assets

    Cash Basis Net Assets at Beginning of Year

    Cash Basis Net Assets at End of Year

Cash Basis Net Assets:

  Restricted:

    Streets

    Urban renewal purposes

    Debt service

  Unrestricted

    Total Cash Basis Net Assets

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

**CITY OF LAKE MILLS**  
Statement of Activities and Net Assets - Cash Basis  
As of and For the Year Ended June 30, 2008

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(503,086)	0	(503,086)
(122,951)	0	(122,951)
(223,849)	0	(223,849)
(125,384)	0	(125,384)
(89,378)	0	(89,378)
(442,778)	0	(442,778)
<u>(19,425)</u>	<u>0</u>	<u>(19,425)</u>
<u>(1,526,851)</u>	<u>0</u>	<u>(1,526,851)</u>
0	24,749	24,749
0	42,283	42,283
0	35,762	35,762
0	34,883	34,883
<u>0</u>	<u>137,677</u>	<u>137,677</u>
<u>(1,526,851)</u>	<u>137,677</u>	<u>(1,389,174)</u>
435,176	0	435,176
839,293	0	839,293
10,540	0	10,540
146,975	0	146,975
120,824	0	120,824
99,000	0	99,000
5,950	0	5,950
28,421	0	28,421
53,153	(53,153)	0
<u>1,739,332</u>	<u>(53,153)</u>	<u>1,686,179</u>
212,481	84,524	297,005
2,097,577	6,235,429	8,333,006
<u>\$ 2,310,058</u>	<u>6,319,953</u>	<u>8,630,011</u>
\$ 207,250	0	207,250
262,589	0	262,589
57,216	1,323,495	1,380,711
1,783,003	4,996,458	6,779,461
<u>\$ 2,310,058</u>	<u>6,319,953</u>	<u>8,630,011</u>

**CITY OF LAKE MILLS**  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances - Governmental Funds  
As of and For the Year Ended June 30, 2008

	General	Special Revenue		Debt Service	Capital Projects	Other Nonmajor Governmental Funds
		Road Use Tax	TIF			
Receipts:						
Property tax	\$ 297,246	0	0	10,524	0	137,186
TIF revenues	0	0	839,293	0	0	0
Other city taxes	147,719	0	0	16	0	0
Licenses and permits	4,888	0	0	0	0	0
Use of money and property	126,736	0	0	0	0	5,038
Intergovernmental	46,786	184,825	0	0	151,110	0
Charges for services	238,976	0	0	0	0	0
Special assessments	0	0	0	0	43,074	0
Miscellaneous	95,829	0	0		4,405	47,303
<b>Total Receipts</b>	<b>958,180</b>	<b>184,825</b>	<b>839,293</b>	<b>10,540</b>	<b>198,589</b>	<b>189,527</b>
Disbursements:						
Operating:						
Public safety	438,552	0	0	0	0	0
Public works	203,767	161,978	0	0	0	7,980
Culture and recreation	303,406	0	0	0	0	155
Community and economic development	31,500	0	83,998	0	195,604	5,000
General government	74,970	0	0	0	0	6,790
Capital outlay:						
Public safety	99,000	0	0	0	0	0
Public works	21,281	95,294	0	0	0	0
Culture and recreation	71,880	0	0	0	0	0
General government	13,745	0	0	0	0	0
Debt service	0	0	0	442,778	0	0
Capital projects	0	0	0	0	62,948	0
<b>Total Disbursements</b>	<b>1,258,101</b>	<b>257,272</b>	<b>83,998</b>	<b>442,778</b>	<b>258,552</b>	<b>19,925</b>
Excess (Deficit) of Receipts over (under) Disbursements	(299,921)	(72,447)	755,295	(432,238)	(59,963)	169,602
Other Financing Sources (Uses):						
Proceeds of long-term debt	99,000	0	0	0	0	0
Operating transfers in	339,048	0	0	432,778	33,731	0
Operating transfers out	(17,500)	0	(587,836)	0	(9,882)	(137,186)
	<b>420,548</b>	<b>0</b>	<b>(587,836)</b>	<b>432,778</b>	<b>23,849</b>	<b>(137,186)</b>
Net Change in Cash Balances	120,627	(72,447)	167,459	540	(36,114)	32,416
Cash Balances at Beginning of Year	1,215,837	279,697	95,130	56,676	316,570	133,667
Cash Balances at End of Year	<b>\$ 1,336,464</b>	<b>207,250</b>	<b>262,589</b>	<b>57,216</b>	<b>280,456</b>	<b>166,083</b>
Cash Basis Fund Balances:						
Reserved:						
Debt Service	\$ 0	0	0	57,216	0	0
Unreserved:						
General fund	1,336,464	0	0	0	0	0
Special revenue funds	0	207,250	262,589	0	0	139,252
Capital projects fund	0	0	0	0	280,456	0
Permanent fund	0	0	0	0	0	26,831
	<b>\$ 1,336,464</b>	<b>207,250</b>	<b>262,589</b>	<b>57,216</b>	<b>280,456</b>	<b>166,083</b>

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

**CITY OF LAKE MILLS**  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances - Governmental Funds  
As of and For the Year Ended June 30, 2008

Total

444,956  
839,293  
147,735  
4,888  
131,774  
382,721  
238,976  
43,074  
147,537

2,380,954

438,552  
373,725  
303,561  
316,102  
81,760

99,000  
116,575  
71,880  
13,745  
442,778  
62,948

2,320,626

60,328

99,000  
805,557  
(752,404)

152,153

212,481

2,097,577

2,310,058

57,216

1,336,464  
609,091  
280,456  
26,831

2,310,058

**CITY OF LAKE MILLS**  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances - Proprietary Funds  
As of and For the Year Ended June 30, 2008

	<u>Enterprise Funds</u>			<u>Storm Water</u>	<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>		
Operating Receipts:					
Charges for services	\$ 281,226	180,342	2,856,510	40,560	3,358,638
Miscellaneous	1,188	181,516	5,746	10,765	199,215
Total Operating Receipts	<u>282,414</u>	<u>361,858</u>	<u>2,862,256</u>	<u>51,325</u>	<u>3,557,853</u>
Disbursements:					
Operating:					
Business type activities	228,040	184,879	2,158,857	16,442	2,588,218
Capital outlay:					
Business type activities	81,382	161,608	426,847	0	669,837
Total Operating Disbursements	<u>309,422</u>	<u>346,487</u>	<u>2,585,704</u>	<u>16,442</u>	<u>3,258,055</u>
Excess of Operating Receipts over Operating Disbursements	<u>(27,008)</u>	<u>15,371</u>	<u>276,552</u>	<u>34,883</u>	<u>299,798</u>
Non-Operating Receipts (Disbursements):					
Use of money and property	51,757	26,912	223,790	0	302,459
Debt service	0	0	(464,580)	0	(464,580)
Total Non-Operating Receipts (Disbursements)	<u>51,757</u>	<u>26,912</u>	<u>(240,790)</u>	<u>0</u>	<u>(162,121)</u>
Operating Transfers In (Out)	<u>0</u>	<u>83,769</u>	<u>(136,922)</u>	<u>0</u>	<u>(53,153)</u>
Net Change in Cash Balances	24,749	126,052	(101,160)	34,883	84,524
Cash Balances at Beginning of Year	<u>1,173,102</u>	<u>482,993</u>	<u>4,579,334</u>	<u>0</u>	<u>6,235,429</u>
Cash Balances at End of Year	<u>\$ 1,197,851</u>	<u>609,045</u>	<u>4,478,174</u>	<u>34,883</u>	<u>6,319,953</u>
Cash Basis Fund Balances:					
Restricted:					
Restricted for debt service	\$ 0	0	1,323,495	0	1,323,495
Unrestricted:					
Unreserved	<u>1,197,851</u>	<u>609,045</u>	<u>3,154,679</u>	<u>34,883</u>	<u>4,996,458</u>
Total Cash Basis Fund Balance:	<u>\$ 1,197,851</u>	<u>609,045</u>	<u>4,478,174</u>	<u>34,883</u>	<u>6,319,953</u>

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

**CITY OF LAKE MILLS**  
Notes to the Financial Statements  
June 30, 2008

(1) Summary of Significant Accounting Policies

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

Reporting Entity

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

The City of Lake Mills has no component units.

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

Basis of Presentation

Government-wide Financial Statements

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

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

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

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

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

**CITY OF LAKE MILLS**  
Notes to the Financial Statements - Continued

Fund Financial Statements

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

The City reports the following major governmental funds:

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

Special Revenue Funds:

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

Measurement Focus and Basis of Accounting

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

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

**CITY OF LAKE MILLS**  
Notes to the Financial Statements – Continued

Budgets and Budgetary Accounting

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

2) Pooled Deposits and Investments

The City's deposits at June 30, 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.

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

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

The City's investments at June 30, 2008 included \$1,422,220 deposited with the Iowa Public Agency Investment Trust and \$225,344 deposited with the Wisconsin State Treasurer through the Western Wisconsin Municipal Power Group.

(3) Long-Term Debt

A summary of the City's June 30, 2008 long-term debt is as follows:

<u>Maturity</u>	<u>Interest Rates</u>	<u>General Obligation Bonds</u>		<u>Total</u>
		<u>Principal</u>	<u>Interest</u>	
2009	0 - 3.80	380,000	75,783	455,783
2010	0 - 4.00	395,000	63,737	458,737
2011	0 - 4.00	405,000	50,713	455,713
2012	0 - 3.30	270,000	37,085	307,085
2013	0 - 3.35	280,000	28,585	308,585
		<u>1,730,000</u>	<u>255,903</u>	<u>1,985,903</u>
2014-2017	0 - 3.65	590,000	39,978	629,978
		<u>\$ 2,320,000</u>	<u>295,881</u>	<u>2,615,881</u>

Interest paid on general obligation bonds amounted to \$86,578 and interest paid on revenue bonds amounted to \$19,580 during the year ended June 30, 2008. All of these interest amounts were expensed.

Cash restricted for the payment of bonds at June 30, 2008 is as follows:

General Obligation Bonds	<u>\$ 57,216</u>
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**CITY OF LAKE MILLS**  
Notes to the Financial Statements - Continued

Changes in the general long-term debt account group during the year ended June 30, 2008 are summarized as follows:

Balance at beginning of year	\$ 2,575,000
New debt issued	100,000
Principal paid	<u>(355,000)</u>
Balance at end of year	<u><u>\$ 2,320,000</u></u>

(4) Retirement System - IPERS

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

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$58,384, \$55,373, and \$51,087, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as expenditures by the City until used or paid. The City's approximate maximum liability for unrecognized accrued employee benefits at June 30, 2008 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 55,417
Sick leave	<u>121,592</u>
	<u><u>\$ 177,009</u></u>

The liability has been computed based on rates of pay as of June 30, 2008.

(6) Risk Management

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

**CITY OF LAKE MILLS**  
Notes to the Financial Statements – Continued

(7) Property Tax Calendar

Property taxes are collected and remitted to the City by the county government. Taxes are levied annually on July 1 based on an assessment as of January 1. Taxes are due one-half on September 30 in the year following the levy and one-half on the subsequent March 31. The lien date is July 1. Current and delinquent tax payments are recognized as receipts by the City when received.

(8) Related Party Transactions

During the year ended June 30, 2008, the City purchased goods and services from a business owned by a city official totaling \$5,371 during the time that he served as a city official.

(9) Notes Receivable

The City is the holder of notes receivable in connection with a revolving loan fund established through Community Development Block Grants. The interest free loans are as follows:

Dras Cases, Inc.	\$ 30,000
Quality Composites	6,160
Stowmaster	40,000
Cavett's Lawn and Garden Center	50,000
	<u>\$ 126,160</u>

A city official is an officer of Quality Composites, even though he was not a city official at the time the loan was made to this company. During the year ended June 30, 2008, Quality Composites repaid \$6,160 on the loan.

**CITY OF LAKE MILLS**  
Notes to the Financial Statements – Continued

(10) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General Fund	Special Revenue Fund - Employee Benefits	\$ 137,186
	Special Revenue Fund - TIF	55,058
	Capital Projects Fund	2,815
	Proprietary Fund - Electric	143,989
		<u>339,048</u>
Debt Service Fund	Special Revenue Fund - TIF	<u>432,778</u>
Capital Projects Fund	General Fund	17,500
	Proprietary Fund - Sewer	16,231
		<u>33,731</u>
Proprietary Fund - Sewer	Special Revenue Fund - TIF	<u>100,000</u>
Proprietary Fund - Electric	Capital Projects Fund	<u>7,067</u>
		<u>\$ 912,624</u>

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

(11) Major Customer

The City of Lake Mills Enterprise Funds have one major customer which accounted for 31% of the charges for services in the enterprise funds during the year ended June 30, 2008.

(12) Commitments

At June 30, 2008, the City had commitments on open construction contracts totaling \$1,798,189.

(13) Subsequent Event

Subsequent to June 30, 2008, the City entered into an agreement to obtain a construction loan in the amount of \$540,000.

**CITY OF LAKE MILLS**  
 Budgetary Comparison Schedule of Receipts, Disbursements  
 and Changes in Cash Balances - Budget and Actual (Cash Basis)  
 All Governmental Funds and Proprietary Funds  
 Year Ended June 30, 2008

	Governmental <u>Funds</u>	Proprietary <u>Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 444,956	0	444,956
TIF revenues	839,293	0	839,293
Other city taxes	147,735	0	147,735
Licenses and permits	4,888	0	4,888
Use of money and property	131,774	302,459	434,233
Intergovernmental	382,721	0	382,721
Charges for service	238,976	3,557,853	3,796,829
Special assessments	43,074	0	43,074
Miscellaneous	147,537	0	147,537
	<u>2,380,954</u>	<u>3,860,312</u>	<u>6,241,266</u>
Disbursements:			
Public safety	537,552	0	537,552
Public works	490,300	0	490,300
Culture and recreation	375,441	0	375,441
Community and economic development	316,102	0	316,102
General government	95,505	0	95,505
Debt service	442,778	0	442,778
Capital projects	62,948	0	62,948
Business type activities	0	3,258,055	3,258,055
	<u>2,320,626</u>	<u>3,258,055</u>	<u>5,578,681</u>
Excess (Deficit) of Receipts over (under) Disbursements	60,328	602,257	662,585
Other Financing Sources (net)	<u>152,153</u>	<u>(517,733)</u>	<u>(365,580)</u>
Excess of Receipts and Other Financing Sources over Disbursements and Other Financing Uses	212,481	84,524	297,005
Balances at Beginning of Year	2,097,577	6,235,429	8,333,006
Balances at End of Year	<u>\$ 2,310,058</u>	<u>6,319,953</u>	<u>8,630,011</u>

**CITY OF LAKE MILLS**  
 Budgetary Comparison Schedule of Receipts, Disbursements  
 and Changes in Cash Balances - Budget and Actual (Cash Basis)  
 All Governmental Funds and Proprietary Funds  
 Year Ended June 30, 2008

<u>Budgeted Amount</u>		<u>Variance to Final</u>
<u>Original</u>	<u>Amended</u>	
441,909	441,909	3,047
799,943	799,943	39,350
138,639	151,934	(4,199)
4,095	4,095	793
251,900	281,900	152,333
1,197,759	1,404,099	(1,021,378)
3,264,601	3,565,851	230,978
0	0	43,074
163,866	243,410	(95,873)
<u>6,262,712</u>	<u>6,893,141</u>	<u>(651,875)</u>
640,575	651,119	113,567
382,282	515,400	25,100
307,386	384,866	9,425
312,225	537,475	221,373
94,822	111,179	15,674
442,778	442,778	0
1,291,718	169,582	106,634
2,974,112	5,130,045	1,871,990
<u>6,445,898</u>	<u>7,942,444</u>	<u>2,363,763</u>
(183,186)	(1,049,303)	1,711,888
<u>100,000</u>	<u>100,000</u>	<u>(465,580)</u>
(83,186)	(949,303)	1,246,308
7,494,108	7,494,108	838,898
<u>7,410,922</u>	<u>6,544,805</u>	<u>2,085,206</u>

**CITY OF LAKE MILLS**  
Notes to Required Supplementary Information  
June 30, 2008

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. During the year, one budget amendment increased budgeted receipts by \$630,429 and budgeted disbursements by \$1,496,546. The budget amendment is reflected in the final budgeted figures.

**CITY OF LAKE MILLS**  
Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances -  
Nonmajor Governmental Funds  
As of and For the Year Ended June 30, 2008

	<u>Special Revenue</u>		
	<u>Employee Benefits</u>	<u>Revolving Loan Fund</u>	<u>Permanent</u>
Receipts:			
Property tax	\$ 137,186	0	0
Use of money and property	0	4,493	545
Miscellaneous	0	26,160	21,143
Total Receipts	<u>137,186</u>	<u>30,653</u>	<u>21,688</u>
Disbursements:			
Operating:			
Public works	0	0	7,980
Culture and recreation	0	0	155
Community and economic development	0	0	5,000
General government	0	0	6,790
Total Disbursements	<u>0</u>	<u>0</u>	<u>19,925</u>
Excess of Receipts over Disbursements	137,186	30,653	1,763
Operating transfers out	<u>(137,186)</u>	<u>0</u>	<u>0</u>
Net Change in Cash Balances	0	30,653	1,763
Cash Balances at Beginning of Year	0	108,599	25,068
Cash Balances at End of Year	<u>\$ 0</u>	<u>139,252</u>	<u>26,831</u>
Cash Basis Cash Balances:			
Unreserved:			
Special revenue funds	\$ 0	139,252	0
Permanent fund	0	0	26,831
	<u>\$ 0</u>	<u>139,252</u>	<u>26,831</u>

**CITY OF LAKE MILLS**  
Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances -  
Nonmajor Governmental Funds  
As of and For the Year Ended June 30, 2008

Total

137,186

5,038

47,303

---

189,527

7,980

155

5,000

6,790

---

19,925

169,602

---

(137,186)

32,416

133,667

---

166,083

139,252

26,831

---

166,083

**CITY OF LAKE MILLS**  
 Schedule of Long-Term Debt and Interest  
 June 30, 2008

	<u>Date of Issue</u>	<u>Interest Rates</u>
General Obligation Bonds:		
G.O. Urban Renewal	November 1, 2001	2.50% - 4.00%
G.O. Refunding	April 1, 2005	2.70% - 3.35%
G.O. Urban Renewal	July 1, 2005	2.75% - 3.65%
Iowa Department of Public Safety	October 4, 2007	0.00%
Total General Obligation Bonds		
Revenue Bonds:		
Electric	June 30, 1998	4.375% - 4.40%
Grand Total		

**CITY OF LAKE MILLS**  
Schedule of Long-Term Debt and Interest  
June 30, 2008

Amount Originally Issued	Balance June 30, 2007	Issued	Redeemed	Balance June 30, 2008	Interest Paid
\$ 1,100,000	\$ 535,000	0	125,000	410,000	20,640
745,000	575,000	0	85,000	490,000	17,780
1,730,000	1,465,000	0	135,000	1,330,000	48,158
100,000	0	100,000	10,000	90,000	0
	<u>2,575,000</u>	<u>100,000</u>	<u>355,000</u>	<u>2,320,000</u>	<u>86,578</u>
2,575,000	<u>445,000</u>	<u>0</u>	<u>445,000</u>	<u>0</u>	<u>19,580</u>
	<u><u>\$ 3,020,000</u></u>	<u><u>100,000</u></u>	<u><u>800,000</u></u>	<u><u>2,320,000</u></u>	<u><u>106,158</u></u>

**CITY OF LAKE MILLS**

Bond Maturities

June 30, 2008

General Obligation Bonds

Year Ending <u>June 30,</u>	<u>Urban Renewal Issued 11-1-01</u>		<u>G.O. Refunding Issued 4-1-05</u>		<u>Urban Renewal Issued 7-1-05</u>	
	Interest <u>Rates</u>	<u>Amount</u>	Interest <u>Rates</u>	<u>Amount</u>	Interest <u>Rates</u>	<u>Amount</u>
2009	3.80%	\$ 130,000	2.90	95,000	3.00	145,000
2010	4.00	135,000	3.05	100,000	3.05	150,000
2011	4.00	145,000	3.10	95,000	3.15	155,000
2012	--	--	3.30	100,000	3.25	160,000
2013	--	--	3.35	100,000	3.35	170,000
2014	--	--	--	--	3.45	175,000
2015	--	--	--	--	3.55	185,000
2016	--	--	--	--	3.65	190,000
2017	--	--	--	--	--	--
		<u>\$ 410,000</u>		<u>490,000</u>		<u>1,330,000</u>

**CITY OF LAKE MILLS**  
Bond Maturities  
June 30, 2008

Iowa Department of  
Public Safety  
Issued 10-4-07

Interest

<u>Rates</u>	<u>Amount</u>	<u>Total</u>
--	10,000	380,000
--	10,000	395,000
--	10,000	405,000
--	10,000	270,000
--	10,000	280,000
--	10,000	185,000
--	10,000	195,000
--	10,000	200,000
--	10,000	10,000
	<u>90,000</u>	<u>2,320,000</u>

**CITY OF LAKE MILLS**

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

		<u>Years Ended June 30,</u>			
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	
Receipts:					
Property tax	\$ 444,956	482,027	556,235	544,505	
TIF revenues	839,293	752,995	663,129	553,230	
Other city taxes	147,735	154,214	140,268	132,969	
Licenses and permits	4,888	5,350	4,596	3,769	
Use of money and property	131,774	133,847	122,356	52,117	
Intergovernmental	382,721	299,242	645,188	397,101	
Charges for services	238,976	239,900	232,693	205,340	
Special assessments	43,074	141,176	18,156	38,204	
Miscellaneous	147,537	141,636	141,388	158,392	
	<u>\$ 2,380,954</u>	<u>2,350,387</u>	<u>2,524,009</u>	<u>2,085,627</u>	
Disbursements:					
Public safety	\$ 537,552	435,163	424,389	448,647	
Public works	490,300	380,796	339,875	339,900	
Culture and recreation	375,441	300,204	318,738	271,641	
Community and economic development	316,102	209,294	449,145	267,539	
General government	95,505	79,751	84,434	81,583	
Debt service	442,778	525,228	1,357,768	428,635	
Capital projects	62,948	140,155	1,715,417	677,317	
	<u>\$ 2,320,626</u>	<u>2,070,591</u>	<u>4,689,766</u>	<u>2,515,262</u>	

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

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

I have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lake Mills, Iowa as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued my report thereon dated October 22, 2008. My report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I believe none of the items are material weaknesses. Prior year significant deficiencies have been resolved except for item 08-II-A.

#### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City of Lake Mills' operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items 08-III-D and 08-III-I.

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

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

S/ Stanley E. Siebke

Urbandale, Iowa  
October 22, 2008

**CITY OF LAKE MILLS**  
Schedule of Findings  
Year Ended June 30, 2008

Part I: Summary of the Independent Auditor's Results

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

**CITY OF LAKE MILLS**  
Schedule of Findings  
Year Ended June 30, 2008

Part II: Findings Related to the Financial Statements

Instances of non-compliance

No matters were noted.

Significant Deficiency

08-II-A Segregation of Duties

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

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

Response: The City Council is aware of this situation.

Conclusion: Response accepted.

**CITY OF LAKE MILLS**  
Schedule of Findings  
Year Ended June 30, 2008

Part III: Other Findings Related to Statutory Reporting

08-III-A Certified Budget

The City properly approved a certified budget for the year ended June 30, 2008 and subsequently amended that budget. The budgeted amounts were not exceeded during the year.

08-III-B Questionable Disbursements

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

08-III-C Travel Expense

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

08-III-D Business Transactions

The City purchased goods and services from the following City official during the time he served as a city official:

Dave's 66 Service	David Anderson	\$ 5,371
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Since the payments are in excess of \$2,500, they are in violation of Chapter 362.5(11) of the Code of Iowa.

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

Conclusion: Response accepted.

08-III-E Bond Coverage

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

08-III-F Council Minutes

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

08-III-G Electric Revenue Bonds

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

08-III-H Deposits and Investments

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

**CITY OF LAKE MILLS**  
Schedule of Findings  
Year Ended June 30, 2008

08-III-I Economic Development

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

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

Response: We will do this.

Conclusion: Response accepted.