

**CITY OF LAKE MILLS**

Lake Mills, Iowa

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

June 30, 2010

With Independent Auditor's Reports

**CITY OF LAKE MILLS**  
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**CITY OF LAKE MILLS**

City Officials  
June 30, 2010

Prior to January 1, 2010

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

Subsequent to December 31, 2009

|                        |                 |              |
|------------------------|-----------------|--------------|
| David E. Steffens, Sr. | Mayor           | January 2012 |
| Candy Hanna            | Mayor Pro-Tem   | January 2014 |
| Bill Clark             | Council Member  | January 2012 |
| Nathan Ostrander       | Council Member  | January 2014 |
| Duane Skellinger       | Council Member  | January 2012 |
| Tony Sorenson          | Council Member  | January 2012 |
| Sheryl Bell            | Clerk-Treasurer | Indefinite   |
| Richard Schwarm        | City Attorney   | Indefinite   |

## INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lake Mills, Iowa, as of and for the year ended June 30, 2010, 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, 2010, 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 27, 2010 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 nine years ended June 30, 2009 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included on pages 25 through 32 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 27, 2010

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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, 2010. It should be read in conjunction with the City's financial statements, which immediately follow this section.

### **2010 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental activities decreased approximately 1.5%, or \$34,085, from Fiscal Year 2009 to Fiscal Year 2010. Decreased interest revenue and Local Option Sales Tax revenue were the major reasons for the decrease in FY 2010.
- Disbursements of the City's governmental activities decreased approximately 15%, or \$352,454, in Fiscal 2010 from Fiscal 2009. The decrease was mainly due to expenditures for purchase of a Police Car, the final payment for the Fire Truck, the new shelter house and sidewalks in Oakwood Park, R74 Resurfacing and purchase of an underbody scraper in Fiscal 2009.
- The City's total cash basis net assets decreased 1.5%, or \$124,505, from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities increased \$424,581 and the assets of the business type activities decreased by \$549,086.

### **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 system and storm water. 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 \$2,003,008 to \$2,427,589 for Fiscal Year 2010. 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>2010</u>         | <u>2009</u>         |
|--|---------------------|---------------------|
| Receipts & Transfers:                        |                     |                     |
| Program Receipts:                            |                     |                     |
| Charges for Service                          | \$ 254,696          | \$ 269,519          |
| Operating Grants and Contributions           | 326,732             | 325,699             |
| Capital Grants and Contributions             | 28,523              | 106,663             |
| General Receipts:                            |                     |                     |
| Property tax levied for:                     |                     |                     |
| General purposes                             | 474,376             | 460,330             |
| Tax increment financing                      | 996,417             | 875,568             |
| Debt service                                 | 10,068              | 9,995               |
| Local option sales tax                       | 151,185             | 187,675             |
| Unrestricted interest on investments         | 35,586              | 62,164              |
| Sale of assets                               | 0                   | 2,650               |
| Miscellaneous                                | 18,394              | 29,799              |
| Transfers                                    | 153,030             | (260,233)           |
| Total Receipts and Transfers                 | <u>2,449,007</u>    | <u>2,069,829</u>    |
| Disbursements:                               |                     |                     |
| Public Safety                                | 532,505             | 606,646             |
| Public Works                                 | 360,746             | 423,272             |
| Culture and Recreation                       | 348,472             | 388,546             |
| Community and Economic Development           | 123,659             | 91,216              |
| General Government                           | 77,306              | 80,646              |
| Debt Service                                 | 581,738             | 456,983             |
| Capital Projects                             | 0                   | 329,571             |
| Total Disbursements                          | <u>2,024,426</u>    | <u>2,376,880</u>    |
| Increase (Decrease) in Cash Basis Net Assets | 424,581             | (307,051)           |
| Cash Basis Net Assets beginning of year      | <u>2,003,008</u>    | <u>2,310,059</u>    |
| Cash Basis Net Assets end of year            | <u>\$ 2,427,589</u> | <u>\$ 2,003,008</u> |

The City's total receipts & transfers for governmental activities increased approximately 18%, or \$379,178. The increase in receipts & transfers was due to: Increased TIF Revenue, Transfer out of funds from the Streetscape Fund to close that Project Account in Fiscal 2009, and decreased Charge for Services, Capital Grants & Contributions, Local Option Sales Tax, Interest and Miscellaneous Revenues.

The total cost of all programs and services decreased by approximately 15% or \$352,454. Public Safety was down approximately \$74,000 primarily due to the final payment for the new fire truck and purchase of a police car in Fiscal 2009. Public Works was down approximately \$62,000 due to R74 Resurfacing and purchase of a new underbody scraper in Fiscal 2009. Culture and Recreation was down approximately \$40,000 due to Park expenditures for a new shelter house and sidewalks in Oakwood Park in Fiscal 2009. Community and Economic Development was up approximately \$32,000 due to a Development Grant to Lake Mills Entertainment. Debt Service was up approximately \$124,000 due to increased scheduled principal & interest payments on storm sewer debt. Capital Projects were down approximately \$329,000 due to the North 2<sup>nd</sup> Avenue Reconstruction Project in Fiscal 2009.

The City property tax rate remained the same for 2010. The overall taxable valuation for the City increased slightly due to increased property values.

The cost of all governmental activities this year was \$2.02 million compared to \$2.38 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 \$1.481 million. Other funding came from fees paid by those directly benefited from the programs (\$254,696), by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$355,255). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2010 from \$701,881 to \$609,951, principally due to Park Improvements and Fire Truck Grants received in 2009. The City paid for the remaining "public benefit" portion of governmental activities with \$1,480,861 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>2010</u>                | <u>2009</u>                |
|---|----------------------------|----------------------------|
| Receipts:   |                            |                            |
| Charges for service:                                    |                            |                            |
| Water   | \$ 283,224                 | \$ 277,424                 |
| Sewer   | 266,819                    | 456,002                    |
| Electric  | 2,904,963                  | 2,619,403                  |
| Storm Water   | 49,463                     | 54,131                     |
| Operating grants, contributions and restricted interest | 105,156                    | 171,602                    |
| Proceeds of long-term debt                              | 5,000                      | 1,424,200                  |
| Total Receipts  | <u>3,614,625</u>           | <u>5,002,762</u>           |
| Disbursements and Transfers:                            |                            |                            |
| Water   | 266,698                    | 1,727,245                  |
| Sewer   | 235,345                    | 215,355                    |
| Electric  | 2,671,827                  | 3,032,565                  |
| Storm Water   | 836,811                    | 110,294                    |
| Transfers   | 153,030                    | (260,233)                  |
| Total Disbursements and Transfers                       | <u>4,163,711</u>           | <u>4,825,226</u>           |
| (Decrease) Increase in Cash Basis Net Assets            | (549,086)                  | 177,536                    |
| Cash Basis Net Assets beginning of year                 | <u>6,497,489</u>           | <u>6,319,953</u>           |
| Cash Basis Net Assets end of year                       | <u><u>\$ 5,948,403</u></u> | <u><u>\$ 6,497,489</u></u> |

Total business type activities receipts for the fiscal year were \$3.6 million compared to \$5.0 million last year. This decrease was due to proceeds of long-term debt, consisting of the SRF Loan for the Water Treatment Plant and Bond Proceeds for the Storm Water Project received in Fiscal 2009. Total disbursements and transfers for the fiscal year were \$4.164 million compared to \$4.825 million last year. The main reason for this decrease was the New Municipal Building and New Water Treatment Plant in Fiscal 2009. The cash balance decreased by \$549,086. The major contributing factor to the decrease in cash balance is proceeds from the bond issue for the Storm Water Project received in Fiscal 2009 for expenses paid in Fiscal 2010.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Lake Mills completed the year, its governmental funds reported a combined fund balance of \$2,427,589, an increase of \$424,581 from last year's total of \$2,003,008. 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 \$70,954 from the prior year to \$1,432,726. The major reason for this increase was Local Option Sales Tax receipts that were not used in this Fiscal Year and Library Savings & Memorial Receipts that will be spent in future years.
- The Road Use Tax Fund cash balance increased by \$33,674 to \$251,805 during the fiscal year. The increase is due to staying within budget on expenditures and receiving slightly over budget on revenue.
- The Urban Renewal Tax Increment Fund cash balance increased by \$280,099 to \$570,751 during the fiscal year. This balance is accumulating to make it possible for early call of the General Obligation Tax Increment Bonds.

- The Debt Service Fund cash balance stayed constant at \$57,279 during the fiscal year.
- **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**
- The Water Fund cash balance increased by \$27,102 to \$528,432.
- The Sewer Fund cash balance increased by \$38,118 to \$846,147, due primarily to receipt of leachate revenue. Without leachate revenue the Sewer Fund would have had a decrease in its cash balance.
- The Electric Fund cash balance increased by \$172,028 to \$4,436,144 primarily due to an increase in the electric rates.
- The Storm Water Fund cash balance decreased by \$786,334 to \$137,680, due primarily to expenditures for the Storm Water Project. The Bond proceeds for the Project were received in Fiscal 2009, the expenditures were made in 2010.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 17, 2010 and resulted in an increase in disbursements related to the use of grants, donations and memorials that were received, unanticipated repairs and debt service.

**DEBT ADMINISTRATION**

On June 30, 2010, the City had \$2,838,000 in bonds and other long-term debt, compared to \$3,352,000 last year, as shown below.

| <b>City of Lake Mills' Outstanding Debt</b> |                     |                     |
|---|---------------------|---------------------|
|   | As of               |                     |
|   | <u>6/30/2010</u>    | <u>6/30/2009</u>    |
| General Obligation Bonds                    | \$ 2,345,000        | \$ 2,840,000        |
| Revenue Bonds                               | 493,000             | 512,000             |
| Total                                       | <u>\$ 2,838,000</u> | <u>\$ 3,352,000</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 property within the City's corporate limits. The City's outstanding general obligation debt of \$2,345,000 is significantly below its constitutional debt limit of \$5,324,671.

## **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 2011 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 – 2010. The City / County's unemployment rate of 8.1 percent is higher than the State's unemployment rate of 6.8 percent and is similar to the National rate of 9.5 percent.

Inflation in the State continues to be similar to the National Consumer Price Index which increased 2.8% during the past year.

These indicators were taken into account when adopting the budget for fiscal year 2011. Amounts available for appropriation in the 2011 operating budget are \$8.499 million, an increase of 25% over the 2010 actual. Budgeted disbursements for 2011 increased approximately 19.3% from the 2010 actual to \$8.259 million. The main reason for the increase in amounts available and budgeted disbursements are: decreased purchased current and electric sales for actual fiscal year 2010, Phase II of the Storm Water Project for fiscal year 2011.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$240,000 by the close of 2011.

## **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, 2010

|                                    | <u>Disbursements</u> | <u>Charges for Service</u> | <u>Program Receipts<br/>Operating Grants,<br/>Contributions,<br/>and Restricted<br/>Interest</u> |
|------------------------------------|----------------------|----------------------------|--|
| Function/Programs:                 |                      |                            |  |
| Governmental activities:           |                      |                            |  |
| Public safety                      | \$ 532,505           | 9,907                      | 43,808   |
| Public works                       | 360,746              | 168,927                    | 208,943  |
| Culture and recreation             | 348,472              | 72,690                     | 31,211   |
| Community and economic development | 123,659              | 0                          | 42,770   |
| General government                 | 77,306               | 3,172                      | 0  |
| Debt service                       | 581,738              | 0                          | 0  |
| Capital projects                   | 0                    | 0                          | 0  |
| Total Governmental Activities      | <u>2,024,426</u>     | <u>254,696</u>             | <u>326,732</u>   |
| Business type activities:          |                      |                            |  |
| Water                              | 266,698              | 283,224                    | 5,576  |
| Sewer                              | 235,345              | 266,819                    | 6,644  |
| Electric                           | 2,671,827            | 2,904,963                  | 91,922   |
| Storm water                        | 836,811              | 49,463                     | 1,014  |
| Total Business Type Activities     | <u>4,010,681</u>     | <u>3,504,469</u>           | <u>105,156</u>   |
| Total                              | <u>\$ 6,035,107</u>  | <u>3,759,165</u>           | <u>431,888</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
- 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
  - Equipment purchase
- 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, 2010

| Capital Grants,<br>Contributions,<br>and Restricted<br><u>Interest</u> | <u>Net (Disbursements) Receipts and<br/>Changes in Cash Basis Net Assets</u> |                                     |                    |
|--|--|-------------------------------------|--------------------|
|  | <u>Governmental<br/>Activities</u>   | <u>Business Type<br/>Activities</u> | <u>Total</u>       |
| 0  | (478,790)  | 0                                   | (478,790)          |
| 0  | 17,124   | 0                                   | 17,124             |
| 0  | (244,571)  | 0                                   | (244,571)          |
| 0  | (80,889)   | 0                                   | (80,889)           |
| 0  | (74,134)   | 0                                   | (74,134)           |
| 0  | (581,738)  | 0                                   | (581,738)          |
| 28,523   | 28,523   | 0                                   | 28,523             |
| <u>28,523</u>  | <u>(1,414,475)</u>   | <u>0</u>                            | <u>(1,414,475)</u> |
|  |  |                                     |                    |
| 0  | 0  | 22,102                              | 22,102             |
| 0  | 0  | 38,118                              | 38,118             |
| 0  | 0  | 325,058                             | 325,058            |
| 0  | 0  | (786,334)                           | (786,334)          |
| <u>0</u>   | <u>0</u>   | <u>(401,056)</u>                    | <u>(401,056)</u>   |
| <u>28,523</u>  | <u>(1,414,475)</u>   | <u>(401,056)</u>                    | <u>(1,815,531)</u> |
|  |  |                                     |                    |
|  | 474,376  | 0                                   | 474,376            |
|  | 996,417  | 0                                   | 996,417            |
|  | 10,068   | 0                                   | 10,068             |
|  | 151,185  | 0                                   | 151,185            |
|  | 35,586   | 0                                   | 35,586             |
|  | 0  | 5,000                               | 5,000              |
|  | 18,394   | 0                                   | 18,394             |
|  | 153,030  | (153,030)                           | 0                  |
|  | <u>1,839,056</u>   | <u>(148,030)</u>                    | <u>1,691,026</u>   |
|  | 424,581  | (549,086)                           | (124,505)          |
|  | 2,003,008  | 6,497,489                           | 8,500,497          |
|  | <u>\$ 2,427,589</u>  | <u>5,948,403</u>                    | <u>8,375,992</u>   |
|  |  |                                     |                    |
| \$ 251,805   | 0  | 0                                   | 251,805            |
| 570,751  | 0  | 0                                   | 570,751            |
| 57,279   | 0  | 0                                   | 57,279             |
| 0  | 841,772  | 0                                   | 841,772            |
| 1,547,754  | 5,106,631  | 0                                   | 6,654,385          |
| <u>\$ 2,427,589</u>  | <u>5,948,403</u>   | <u>0</u>                            | <u>8,375,992</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, 2010

|   | General             | Special Revenue |                  | Debt Service   | Other Nonmajor Governmental Funds |
|---|---------------------|-----------------|------------------|----------------|-----------------------------------|
|   |                     | Road Use Tax    | TIF              |                |                                   |
| Receipts:   |                     |                 |                  |                |                                   |
| Property tax  | \$ 321,149          | 0               | 0                | 10,054         | 152,477                           |
| TIF revenues  | 0                   | 0               | 996,417          | 0              | 0                                 |
| Other city taxes  | 151,936             | 0               | 0                | 14             | 0                                 |
| Licenses and permits                                    | 3,806               | 0               | 0                | 0              | 0                                 |
| Use of money and property                               | 38,581              | 0               | 2,011            | 0              | 834                               |
| Intergovernmental                                       | 79,066              | 190,668         | 0                | 0              | 0                                 |
| Charges for services                                    | 232,567             | 0               | 0                | 0              | 0                                 |
| Special assessments                                     | 0                   | 0               | 15,559           | 0              | 28,523                            |
| Miscellaneous   | 34,492              | 0               | 6,332            | 0              | 31,491                            |
| <b>Total Receipts</b>                                   | <b>861,597</b>      | <b>190,668</b>  | <b>1,020,319</b> | <b>10,068</b>  | <b>213,325</b>                    |
| Disbursements:  |                     |                 |                  |                |                                   |
| Operating:  |                     |                 |                  |                |                                   |
| Public safety   | 506,583             | 0               | 25,922           | 0              | 0                                 |
| Public works  | 182,756             | 156,994         | 11,232           | 0              | 9,764                             |
| Culture and recreation                                  | 337,798             | 0               | 10,674           | 0              | 0                                 |
| Community and economic development                      | 2,000               | 0               | 120,654          | 0              | 1,005                             |
| General government                                      | 74,502              | 0               | 0                | 0              | 2,804                             |
| Debt service  | 0                   | 0               | 0                | 581,738        | 0                                 |
| <b>Total Disbursements</b>                              | <b>1,103,639</b>    | <b>156,994</b>  | <b>168,482</b>   | <b>581,738</b> | <b>13,573</b>                     |
| Excess (Deficit) of Receipts over (under) Disbursements | (242,042)           | 33,674          | 851,837          | (571,670)      | 199,752                           |
| Other Financing Sources (Uses):                         |                     |                 |                  |                |                                   |
| Operating transfers in                                  | 312,996             | 0               | 0                | 571,738        | 0                                 |
| Operating transfers out                                 | 0                   | 0               | (571,738)        | 0              | (159,966)                         |
|   | <b>312,996</b>      | <b>0</b>        | <b>(571,738)</b> | <b>571,738</b> | <b>(159,966)</b>                  |
| Net Change in Cash Balances                             | 70,954              | 33,674          | 280,099          | 68             | 39,786                            |
| Cash Balances at Beginning of Year                      | 1,361,772           | 218,131         | 290,652          | 57,211         | 75,242                            |
| Cash Balances at End of Year                            | <b>\$ 1,432,726</b> | <b>251,805</b>  | <b>570,751</b>   | <b>57,279</b>  | <b>115,028</b>                    |
| Cash Basis Fund Balances:                               |                     |                 |                  |                |                                   |
| Reserved:   |                     |                 |                  |                |                                   |
| Debt Service  | \$ 0                | 0               | 0                | 57,279         | 0                                 |
| Unreserved:   |                     |                 |                  |                |                                   |
| General fund  | 1,432,726           | 0               | 0                | 0              | 0                                 |
| Special revenue funds                                   | 0                   | 251,805         | 570,751          | 0              | 184,620                           |
| Capital projects fund                                   | 0                   | 0               | 0                | 0              | (98,024)                          |
| Permanent fund  | 0                   | 0               | 0                | 0              | 28,432                            |
|   | <b>\$ 1,432,726</b> | <b>251,805</b>  | <b>570,751</b>   | <b>57,279</b>  | <b>115,028</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, 2010

Total

483,680  
996,417  
151,950  
3,806  
41,426  
269,734  
232,567  
44,082  
72,315

2,295,977

532,505  
360,746  
348,472  
123,659  
77,306  
581,738

2,024,426

271,551

884,734  
(731,704)

153,030

424,581

2,003,008

2,427,589

57,279

1,432,726  
1,007,176  
(98,024)  
28,432

2,427,589

**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, 2010

|  | <u>Enterprise Funds</u> |                |                  |                        | <u>Total</u>     |
|--|-------------------------|----------------|------------------|------------------------|------------------|
|  | <u>Water</u>            | <u>Sewer</u>   | <u>Electric</u>  | <u>Storm<br/>Water</u> |                  |
| Operating Receipts:  |                         |                |                  |                        |                  |
| Charges for services   | \$ 281,228              | 177,833        | 2,886,201        | 49,437                 | 3,394,699        |
| Miscellaneous  | 1,996                   | 88,986         | 18,762           | 26                     | 109,770          |
| Total Operating Receipts   | <u>283,224</u>          | <u>266,819</u> | <u>2,904,963</u> | <u>49,463</u>          | <u>3,504,469</u> |
| Disbursements:   |                         |                |                  |                        |                  |
| Operating:   |                         |                |                  |                        |                  |
| Business type activities   | 225,004                 | 235,345        | 2,598,960        | 2,295                  | 3,061,604        |
| Capital outlay:  |                         |                |                  |                        |                  |
| Business type activities   | 2,223                   | 0              | 72,867           | 834,516                | 909,606          |
| Total Operating Disbursements  | <u>227,227</u>          | <u>235,345</u> | <u>2,671,827</u> | <u>836,811</u>         | <u>3,971,210</u> |
| Excess (Deficit) of Operating Receipts<br>over (under) Operating Disbursements | <u>55,997</u>           | <u>31,474</u>  | <u>233,136</u>   | <u>(787,348)</u>       | <u>(466,741)</u> |
| Non-Operating Receipts (Disbursements):  |                         |                |                  |                        |                  |
| Use of money and property  | 5,576                   | 6,644          | 91,922           | 1,014                  | 105,156          |
| Proceeds of long-term debt   | 5,000                   | 0              | 0                | 0                      | 5,000            |
| Debt service   | (39,471)                | 0              | 0                | 0                      | (39,471)         |
| Total Non-Operating Receipts<br>(Disbursements)                                | <u>(28,895)</u>         | <u>6,644</u>   | <u>91,922</u>    | <u>1,014</u>           | <u>70,685</u>    |
| Operating Transfers In (Out)   | <u>0</u>                | <u>0</u>       | <u>(153,030)</u> | <u>0</u>               | <u>(153,030)</u> |
| Net Change in Cash Balances  | 27,102                  | 38,118         | 172,028          | (786,334)              | (549,086)        |
| Cash Balances at Beginning of Year   | <u>501,330</u>          | <u>808,029</u> | <u>4,264,116</u> | <u>924,014</u>         | <u>6,497,489</u> |
| Cash Balances at End of Year   | <u>\$ 528,432</u>       | <u>846,147</u> | <u>4,436,144</u> | <u>137,680</u>         | <u>5,948,403</u> |
| Cash Basis Fund Balances:  |                         |                |                  |                        |                  |
| Restricted:  |                         |                |                  |                        |                  |
| Restricted for equipment purchase  | \$ 0                    | 0              | 841,772          | 0                      | 841,772          |
| Unrestricted:  |                         |                |                  |                        |                  |
| Unreserved   | <u>528,432</u>          | <u>846,147</u> | <u>3,594,372</u> | <u>137,680</u>         | <u>5,106,631</u> |
| Total Cash Basis Fund Balance:   | <u>\$ 528,432</u>       | <u>846,147</u> | <u>4,436,144</u> | <u>137,680</u>         | <u>5,948,403</u> |

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

**CITY OF LAKE MILLS**  
Notes to the Financial Statements  
June 30, 2010

(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 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.

Storm Water Fund – The Storm Water Fund accounts for the operation and maintenance of the City's storm water drainage 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, 2010 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, 2010 included \$498,248 deposited with the Iowa Public Agency Investment Trust and \$75,413 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, 2010 long-term debt is as follows:

| <u>Maturity</u> | <u>Interest Rates</u> | <u>General Obligation Bonds</u> |                 | <u>Water Revenue Bonds</u> |                 | <u>Total</u>     |
|-----------------|-----------------------|---------------------------------|-----------------|----------------------------|-----------------|------------------|
|                 |                       | <u>Principal</u>                | <u>Interest</u> | <u>Principal</u>           | <u>Interest</u> |                  |
| 2011            | 0 - 4.00%             | \$ 505,000                      | 70,162          | 24,000                     | 14,790          | 613,952          |
| 2012            | 0 - 3.30              | 370,000                         | 54,685          | 25,000                     | 14,070          | 463,755          |
| 2013            | 0 - 3.35              | 380,000                         | 44,335          | 26,000                     | 13,320          | 463,655          |
| 2014            | 0 - 3.45              | 285,000                         | 33,290          | 27,000                     | 12,540          | 357,830          |
| 2015            | 0 - 3.55              | 295,000                         | 25,003          | 28,000                     | 11,730          | 359,733          |
|                 |                       | <u>1,835,000</u>                | <u>227,475</u>  | <u>130,000</u>             | <u>66,450</u>   | <u>2,258,925</u> |
| 2016-2020       | 0 - 3.65              | 510,000                         | 25,425          | 150,000                    | 45,750          | 731,175          |
| 2021-2025       | 3.00                  | 0                               | 0               | 175,000                    | 21,750          | 196,750          |
| 2026            | 3.00                  | 0                               | 0               | 38,000                     | 1,140           | 39,140           |
|                 |                       | <u>\$ 2,345,000</u>             | <u>252,900</u>  | <u>493,000</u>             | <u>135,090</u>  | <u>3,225,990</u> |

Interest paid on general obligation bonds amounted to \$85,038 and interest paid on revenue bonds amounted to \$15,471 during the year ended June 30, 2010. All of these interest amounts were expensed.

Cash restricted for the payment of bonds at June 30, 2010 is as follows:

|                          |                  |
|--------------------------|------------------|
| General Obligation Bonds | <u>\$ 57,279</u> |
|--------------------------|------------------|

**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, 2010 are summarized as follows:

|                              |              |
|------------------------------|--------------|
| Balance at beginning of year | \$ 2,840,000 |
| New debt issued              | 0            |
| Principal paid               | (495,000)    |
| Balance at end of year       | \$ 2,345,000 |

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

| <u>Year Ending</u><br><u>June 30,</u> | <u>Amount</u> |
|---------------------------------------|---------------|
| 2011                                  | \$ 38,790     |
| 2012                                  | 39,070        |
| 2013                                  | 39,320        |
| 2014                                  | 39,540        |
| 2015                                  | 39,730        |
|                                       | 196,450       |
| 2016-2020                             | 195,750       |
| 2021-2025                             | 196,750       |
| 2026                                  | 39,140        |
|                                       | \$ 628,090    |

(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 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered payroll except for police employees, in which case the percentages are actuarially determined. The City's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$67,921, \$64,548, and \$58,384, 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, 2010 is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|---------------|
| Vacation               | \$ 60,755     |
| Sick leave             | 150,917       |
|                        | \$ 211,672    |

The liability has been computed based on rates of pay as of June 30, 2010.

**CITY OF LAKE MILLS**

Notes to the Financial Statements – Continued

(6) Risk Management

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

(7) Property Tax Calendar

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

(8) Notes Receivable

The City is the holder of notes receivable in connection with a revolving loan fund established through Community Development Block Grants. The loans carry interest rates ranging from 0% to 2% and are summarized as follows:

|                                 |           |
|---------------------------------|-----------|
| Dras Cases, Inc.                | \$ 10,000 |
| Cavett's Lawn and Garden Center | 37,023    |
|                                 | \$ 47,023 |

In addition, the City holds a note receivable from Lake Mills Entertainment with an outstanding balance of \$63,600 at June 30, 2010. This loan is being paid in monthly installments of \$695 and carries an interest rate of 3%. Final payment of the loan is scheduled for February 2013.

(9) Interfund Transfers

The detail of interfund transfers during the year ended June 30, 2010 is as follows:

| <u>Transfer to</u>          | <u>Transfer from</u>                     | <u>Amount</u> |
|-----------------------------|--|---------------|
| General Fund                | Special Revenue Fund - Employee Benefits | \$ 152,477    |
|                             | Capital Projects Fund                    | 6,533         |
|                             | Proprietary Fund - Electric              | 153,986       |
|                             |  | 312,996       |
| Debt Service Fund           | Special Revenue Fund - TIF               | 571,738       |
| Proprietary Fund - Electric | Capital Projects Fund                    | 956           |
|                             |  | \$ 885,690    |

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

(10) 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, 2010. During the year ended June 30, 2010, this customer announced that it would significantly reduce its level of operations in Lake Mills.

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

- (11) Budget Overexpenditure  
Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the function level. During the year ended June 30, 2010, disbursements in the debt service program exceeded the amount budgeted.
- (12) Commitments  
At June 30, 2010, the City had contractual commitments for construction and services totaling \$60,318. Subsequent to June 30, 2010, the City awarded an additional contract in the amount of \$174,305.
- (13) Stewardship, Compliance and Accountability – Deficit Fund Balance  
At June 30, 2010, the City of Lake Mills had a deficit fund balance in the Capital Projects Fund of \$98,024 as a result of disbursements exceeding receipts during the year ended June 30, 2009. This deficit is to be eliminated through future special assessments.

**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, 2010

|  | Governmental<br>Funds      | Proprietary<br>Funds    | Total                   |
|--|----------------------------|-------------------------|-------------------------|
| Receipts:  |                            |                         |                         |
| Property tax   | \$ 483,680                 | 0                       | 483,680                 |
| TIF revenues   | 996,417                    | 0                       | 996,417                 |
| Other city taxes   | 151,950                    | 0                       | 151,950                 |
| Licenses and permits   | 3,806                      | 0                       | 3,806                   |
| Use of money and property  | 41,426                     | 105,156                 | 146,582                 |
| Intergovernmental  | 269,734                    | 0                       | 269,734                 |
| Charges for service  | 232,567                    | 3,504,469               | 3,737,036               |
| Special assessments  | 44,082                     | 0                       | 44,082                  |
| Miscellaneous  | 72,315                     | 0                       | 72,315                  |
| <b>Total Receipts</b>  | <b><u>2,295,977</u></b>    | <b><u>3,609,625</u></b> | <b><u>5,905,602</u></b> |
| Disbursements:   |                            |                         |                         |
| Public safety  | 532,505                    | 0                       | 532,505                 |
| Public works   | 360,746                    | 0                       | 360,746                 |
| Culture and recreation   | 348,472                    | 0                       | 348,472                 |
| Community and economic development   | 123,659                    | 0                       | 123,659                 |
| General government   | 77,306                     | 0                       | 77,306                  |
| Debt service   | 581,738                    | 0                       | 581,738                 |
| Capital projects   | 0                          | 0                       | 0                       |
| Business type activities   | 0                          | 4,164,667               | 4,164,667               |
| <b>Total Disbursements</b>   | <b><u>2,024,426</u></b>    | <b><u>4,164,667</u></b> | <b><u>6,189,093</u></b> |
| Excess (Deficit) of Receipts over<br>(under) Disbursements                                       | 271,551                    | (555,042)               | (283,491)               |
| Other Financing Sources (net)  | <u>153,030</u>             | <u>5,956</u>            | <u>158,986</u>          |
| Excess of Receipts and Other Financing<br>Sources over Disbursements and<br>Other Financing Uses | 424,581                    | (549,086)               | (124,505)               |
| Balances at Beginning of Year  | 2,003,008                  | 6,497,489               | 8,500,497               |
| Balances at End of Year  | <b><u>\$ 2,427,589</u></b> | <b><u>5,948,403</u></b> | <b><u>8,375,992</u></b> |

**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, 2010

| <u>Budgeted Amount</u> |                  | <u>Variance<br/>to Final</u> |
|------------------------|------------------|------------------------------|
| <u>Original</u>        | <u>Amended</u>   |                              |
| 477,931                | 477,931          | 5,749                        |
| 948,477                | 948,477          | 47,940                       |
| 142,100                | 142,100          | 9,850                        |
| 3,375                  | 3,375            | 431                          |
| 130,950                | 130,950          | 15,632                       |
| 347,016                | 366,776          | (97,042)                     |
| 3,923,691              | 3,924,591        | (187,555)                    |
| 0                      | 0                | 44,082                       |
| 59,850                 | 79,548           | (7,233)                      |
| <u>6,033,390</u>       | <u>6,073,748</u> | <u>(168,146)</u>             |
| 494,458                | 541,640          | 9,135                        |
| 384,823                | 396,686          | 35,940                       |
| 352,774                | 382,546          | 34,074                       |
| 308,613                | 365,613          | 241,954                      |
| 82,974                 | 82,974           | 5,668                        |
| 459,938                | 581,638          | (100)                        |
| 0                      | 0                | 0                            |
| 5,023,499              | 5,023,499        | 858,832                      |
| <u>7,107,079</u>       | <u>7,374,596</u> | <u>1,185,503</u>             |
| (1,073,689)            | (1,300,848)      | 1,017,357                    |
| <u>1,263,000</u>       | <u>1,263,000</u> | <u>(1,104,014)</u>           |
| 189,311                | (37,848)         | (86,657)                     |
| 8,452,046              | 8,452,046        | 48,451                       |
| <u>8,641,357</u>       | <u>8,414,198</u> | <u>(38,206)</u>              |

**CITY OF LAKE MILLS**  
Notes to Required Supplementary Information  
June 30, 2010

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. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the 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 receipts by \$40,358 and budgeted disbursements by \$267,517. The budget amendment is reflected in the final budgeted figures.

During the year ended June 30, 2010, disbursements exceeded amounts budgeted in the debt service function.

**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, 2010

|                                       | <u>Special Revenue</u>             |                                      |                                   |
|---------------------------------------|------------------------------------|--------------------------------------|-----------------------------------|
|                                       | <u>Employee</u><br><u>Benefits</u> | <u>Revolving</u><br><u>Loan Fund</u> | <u>Capital</u><br><u>Projects</u> |
| Receipts:                             |                                    |                                      |                                   |
| Property tax                          | \$ 152,477                         | 0                                    | 0                                 |
| Use of money and property             | 0                                  | 648                                  | 0                                 |
| Special assessments                   | 0                                  | 0                                    | 28,523                            |
| Miscellaneous                         | 0                                  | 18,220                               | 0                                 |
| Total Receipts                        | <u>152,477</u>                     | <u>18,868</u>                        | <u>28,523</u>                     |
| Disbursements:                        |                                    |                                      |                                   |
| Operating:                            |                                    |                                      |                                   |
| Public works                          | 0                                  | 0                                    | 0                                 |
| Community and economic development    | 0                                  | 1,005                                | 0                                 |
| General government                    | 0                                  | 0                                    | 0                                 |
| Total Disbursements                   | <u>0</u>                           | <u>1,005</u>                         | <u>0</u>                          |
| Excess of Receipts over Disbursements | 152,477                            | 17,863                               | 28,523                            |
| Operating transfers out               | <u>(152,477)</u>                   | <u>0</u>                             | <u>(7,489)</u>                    |
| Net Change in Cash Balances           | 0                                  | 17,863                               | 21,034                            |
| Cash Balances at Beginning of Year    | 0                                  | 166,757                              | (119,058)                         |
| Cash Balances at End of Year          | <u>\$ 0</u>                        | <u>184,620</u>                       | <u>(98,024)</u>                   |
| Cash Basis Cash Balances:             |                                    |                                      |                                   |
| Unreserved:                           |                                    |                                      |                                   |
| Special revenue funds                 | \$ 0                               | 184,620                              | 0                                 |
| Capital projects fund                 | 0                                  | 0                                    | (98,024)                          |
| Permanent fund                        | 0                                  | 0                                    | 0                                 |
|                                       | <u>\$ 0</u>                        | <u>184,620</u>                       | <u>(98,024)</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, 2010

| <u>Permanent</u> | <u>Total</u> |
|------------------|--------------|
| 0                | 152,477      |
| 186              | 834          |
| 0                | 28,523       |
| 13,271           | 31,491       |
| <hr/>            | <hr/>        |
| 13,457           | 213,325      |
| <hr/>            | <hr/>        |
| 9,764            | 9,764        |
| 0                | 1,005        |
| 2,804            | 2,804        |
| <hr/>            | <hr/>        |
| 12,568           | 13,573       |
| <hr/>            | <hr/>        |
| 889              | 199,752      |
| <hr/>            | <hr/>        |
| 0                | (159,966)    |
| <hr/>            | <hr/>        |
| 889              | 39,786       |
| 27,543           | 75,242       |
| <hr/>            | <hr/>        |
| 28,432           | 115,028      |
| <hr/>            | <hr/>        |
| <hr/>            | <hr/>        |
| 0                | 184,620      |
| 0                | (98,024)     |
| 28,432           | 28,432       |
| <hr/>            | <hr/>        |
| 28,432           | 115,028      |
| <hr/>            | <hr/>        |

**CITY OF LAKE MILLS**  
Schedule of Long-Term Debt and Interest  
June 30, 2010

|                                  | <u>Date of<br/>Issue</u> | <u>Interest<br/>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%                     |
| G.O. Urban Renewal               | May 18, 2009             | 1.85% - 3.25%             |
| Total General Obligation Bonds   |                          |                           |
| Revenue Bonds:                   |                          |                           |
| Water SRF                        | August 20, 2008          | 3.00%                     |
| Grand Total                      |                          |                           |

**CITY OF LAKE MILLS**  
Schedule of Long-Term Debt and Interest  
June 30, 2010

| Amount<br>Originally<br>Issued | Balance<br>June 30, 2009 | Issued       | Redeemed       | Balance<br>June 30, 2010 | Interest<br>Paid |
|--------------------------------|--------------------------|--------------|----------------|--------------------------|------------------|
| \$ 1,100,000                   | \$ 280,000               | 0            | 135,000        | 145,000                  | \$ 11,200        |
| 745,000                        | 395,000                  | 0            | 100,000        | 295,000                  | 12,645           |
| 1,730,000                      | 1,185,000                | 0            | 150,000        | 1,035,000                | 39,893           |
| 100,000                        | 80,000                   | 0            | 10,000         | 70,000                   | 0                |
| 900,000                        | 900,000                  | 0            | 100,000        | 800,000                  | 21,300           |
|                                | <u>2,840,000</u>         | <u>0</u>     | <u>495,000</u> | <u>2,345,000</u>         | <u>85,038</u>    |
| 540,000                        | <u>512,000</u>           | <u>5,000</u> | <u>24,000</u>  | <u>493,000</u>           | <u>15,471</u>    |
|                                | <u>\$ 3,352,000</u>      | <u>5,000</u> | <u>519,000</u> | <u>2,838,000</u>         | <u>100,509</u>   |

**CITY OF LAKE MILLS**

Bond Maturities

June 30, 2010

General Obligation Bonds

| <u>Year</u><br><u>Ending</u><br><u>June 30,</u> | <u>Urban Renewal</u><br><u>Issued 11-1-01</u> |                   | <u>G.O. Refunding</u><br><u>Issued 4-1-05</u> |                | <u>Urban Renewal</u><br><u>Issued 7-1-05</u> |                  |
|---|---|-------------------|---|----------------|--|------------------|
|   | <u>Interest</u><br><u>Rates</u>               | <u>Amount</u>     | <u>Interest</u><br><u>Rates</u>               | <u>Amount</u>  | <u>Interest</u><br><u>Rates</u>              | <u>Amount</u>    |
| 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  | --  | --                | --  | --             | --   | --               |
| 2018  | --  | --                | --  | --             | --   | --               |
|   |   | <u>\$ 145,000</u> |   | <u>295,000</u> |  | <u>1,035,000</u> |

Water Revenue Bonds

Issued 8-20-08

| <u>Year</u><br><u>Ending</u><br><u>June 30,</u> | <u>Interest</u> |                   |
|---|-----------------|-------------------|
|   | <u>Rates</u>    | <u>Amount</u>     |
| 2011  | 3.00%           | \$ 24,000         |
| 2012  | 3.00            | 25,000            |
| 2013  | 3.00            | 26,000            |
| 2014  | 3.00            | 27,000            |
| 2015  | 3.00            | 28,000            |
| 2016  | 3.00            | 28,000            |
| 2017  | 3.00            | 29,000            |
| 2018  | 3.00            | 30,000            |
| 2019  | 3.00            | 31,000            |
| 2020  | 3.00            | 32,000            |
| 2021  | 3.00            | 33,000            |
| 2022  | 3.00            | 34,000            |
| 2023  | 3.00            | 35,000            |
| 2024  | 3.00            | 36,000            |
| 2025  | 3.00            | 37,000            |
| 2026  | 3.00            | 38,000            |
|   |                 | <u>\$ 493,000</u> |

**CITY OF LAKE MILLS**

Bond Maturities

June 30, 2010

| Iowa Department of<br>Public Safety<br>Issued 10-4-07 |               | G.O. Urban Renewal<br>Storm Water<br>Issued 5/18/09 |                |                  |
|---|---------------|---|----------------|------------------|
| Interest  |               | Interest  |                |                  |
| <u>Rates</u>  | <u>Amount</u> | <u>Rates</u>  | <u>Amount</u>  | <u>Total</u>     |
| --  | 10,000        | 1.85  | 100,000        | 505,000          |
| --  | 10,000        | 1.85  | 100,000        | 370,000          |
| --  | 10,000        | 2.00  | 100,000        | 380,000          |
| --  | 10,000        | 2.25  | 100,000        | 285,000          |
| --  | 10,000        | 2.50  | 100,000        | 295,000          |
| --  | 10,000        | 2.75  | 100,000        | 300,000          |
| --  | 10,000        | 3.00  | 100,000        | 110,000          |
| --  | --            | 3.25  | 100,000        | 100,000          |
|   | <u>70,000</u> |   | <u>800,000</u> | <u>2,345,000</u> |

**CITY OF LAKE MILLS**  
Schedule of Receipts by Source and Disbursements by Function  
All Governmental Funds  
Years Ended June 30,

|                                    | <u>2010</u>                    | <u>2009</u>                 | <u>2008</u>                 | <u>2007</u>                 |
|------------------------------------|--------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Receipts:                          |                                |                             |                             |                             |
| Property tax                       | \$ 483,680                     | 470,325                     | 444,956                     | 482,027                     |
| TIF revenues                       | 996,417                        | 875,568                     | 839,293                     | 752,995                     |
| Other city taxes                   | 151,950                        | 187,675                     | 147,735                     | 154,214                     |
| Licenses and permits               | 3,806                          | 3,163                       | 4,888                       | 5,350                       |
| Use of money and property          | 41,426                         | 70,813                      | 131,774                     | 133,847                     |
| Intergovernmental                  | 269,734                        | 278,738                     | 382,721                     | 299,242                     |
| Charges for services               | 232,567                        | 243,213                     | 238,976                     | 239,900                     |
| Special assessments                | 44,082                         | 54,971                      | 43,074                      | 141,176                     |
| Miscellaneous                      | 72,315                         | 145,596                     | 147,537                     | 141,636                     |
| <br>Total Receipts                 | <br><u><u>\$ 2,295,977</u></u> | <br><u><u>2,330,062</u></u> | <br><u><u>2,380,954</u></u> | <br><u><u>2,350,387</u></u> |
| Disbursements:                     |                                |                             |                             |                             |
| Public safety                      | \$ 532,505                     | 606,646                     | 537,552                     | 435,163                     |
| Public works                       | 360,746                        | 423,272                     | 490,300                     | 380,796                     |
| Culture and recreation             | 348,472                        | 388,546                     | 375,441                     | 300,204                     |
| Community and economic development | 123,659                        | 91,216                      | 316,102                     | 209,294                     |
| General government                 | 77,306                         | 80,646                      | 95,505                      | 79,751                      |
| Debt service                       | 581,738                        | 456,983                     | 442,778                     | 525,228                     |
| Capital projects                   | 0                              | 329,571                     | 62,948                      | 140,155                     |
| <br>Total Disbursements            | <br><u><u>\$ 2,024,426</u></u> | <br><u><u>2,376,880</u></u> | <br><u><u>2,320,626</u></u> | <br><u><u>2,070,591</u></u> |

**CITY OF LAKE MILLS**  
Schedule of Receipts by Source and Disbursements by Function  
All Governmental Funds  
Years Ended June 30,

| <u>2006</u>      | <u>2005</u>      | <u>2004</u>      | <u>2003</u>      | <u>2002</u>      | <u>2001</u>      |
|------------------|------------------|------------------|------------------|------------------|------------------|
| 556,235          | 544,505          | 565,217          | 587,057          | 578,685          | 592,380          |
| 663,129          | 553,230          | 458,163          | 415,475          | 429,544          | 408,117          |
| 140,268          | 132,969          | 137,841          | 126,999          | 146,683          | 92,476           |
| 4,596            | 3,769            | 3,480            | 3,988            | 4,380            | 4,089            |
| 122,356          | 52,117           | 30,279           | 43,952           | 96,416           | 123,667          |
| 645,188          | 397,101          | 226,039          | 375,358          | 244,528          | 303,261          |
| 232,693          | 205,340          | 206,891          | 197,821          | 182,139          | 174,225          |
| 18,156           | 38,204           | 16,938           | 14,803           | 14,843           | 13,320           |
| 141,388          | 158,392          | 153,762          | 187,930          | 229,269          | 148,869          |
| <u>2,524,009</u> | <u>2,085,627</u> | <u>1,798,610</u> | <u>1,953,383</u> | <u>1,926,487</u> | <u>1,860,404</u> |
| 424,389          | 448,647          | 374,684          | 417,936          | 386,863          | 343,172          |
| 339,875          | 339,900          | 286,947          | 341,063          | 391,550          | 295,285          |
| 318,738          | 271,641          | 282,080          | 299,818          | 1,876,388        | 267,083          |
| 449,145          | 267,539          | 263,195          | 230,929          | 155,914          | 191,973          |
| 84,434           | 81,583           | 94,410           | 80,268           | 96,847           | 95,434           |
| 1,357,768        | 428,635          | 420,567          | 427,223          | 357,910          | 335,905          |
| 1,715,417        | 677,317          | 183,902          | 0                | 0                | 186,268          |
| <u>4,689,766</u> | <u>2,515,262</u> | <u>1,905,785</u> | <u>1,797,237</u> | <u>3,265,472</u> | <u>1,715,120</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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued my report thereon dated October 27, 2010. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, 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 deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Lake Mills' financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in Part II of the accompanying Schedule of Findings to be a significant deficiency.

### 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, 2010 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 item 10-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 27, 2010

**CITY OF LAKE MILLS**  
Schedule of Findings  
Year Ended June 30, 2010

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 significant deficiency 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, 2010

Part II: Findings Related to the Financial Statements

Instances of non-compliance

No matters were noted.

Significant Deficiency

10-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, 2010

Part III: Other Findings Related to Statutory Reporting

10-III-A Certified Budget

City expenditures during the year ended June 30, 2010 exceeded amounts budgeted therefore in the debt service program. Chapter 384 of the Code of Iowa prohibits such budget overruns. City officials should carefully monitor expenditures and include all items in budget amendments when necessary.

Response: We will carefully monitor expenditures to avoid budget overruns.

Conclusion: Response accepted.

10-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.

10-III-C Travel Expense

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

10-III-D Business Transactions

During the year ended June 30, 2010, there were no transactions between the City and City officials.

10-III-E Bond Coverage

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

10-III-F Council Minutes

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

10-III-G Water Revenue Bonds

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

10-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, 2010

10-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.

10-III-J Deficit Fund Balance

At June 30, 2010, the City had a deficit fund balance in the Capital Projects Fund of \$98,024. This deficit is to be eliminated through the collection of special assessments. The City should carefully monitor the deficit fund balance to be sure it is eliminated.

Response: We will monitor the fund balance to be sure it is eliminated.

Conclusion: Response accepted.