

CITY OF STORM LAKE

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2014

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CITY OF STORM LAKE

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before December 2013)		
Jon Kruse	Mayor	December, 2013
David Walker	Mayor Pro Tem	December, 2015
Dan Anderson	Council Member	December, 2013
Mike Porsch	Council Member	December, 2013
Bruce Engelman	Council Member	December, 2015
Sara Huddleston	Council Member	December, 2015
James Patrick	City Manager	Indefinite
Justin Yarosevich	Assistant City Manager/City Clerk	Indefinite
Phil Havens	City Attorney	Indefinite
(After December 2013)		
Jon Kruse	Mayor	December, 2017
David Walker	Mayor Pro Tem	December, 2015
Bruce Engelman	Council Member	December, 2015
Sara Huddleston	Council Member	December, 2015
Dan Anderson	Council Member	December, 2017
Mike Porsch	Council Member	December, 2017
James Patrick	City Manager	Indefinite
Justin Yarosevich	Assistant City Manager/City Clerk	Indefinite
Phil Havens	City Attorney	Indefinite

# HUNZELMAN, PUTZIER & Co., PLC

CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.  
JASON K. RAVELING  
TAMMY M. CARLSON, C.P.A.  
RICHARD R. MOORE, C.P.A. (RETIRED)  
WESLEY E. STILLE, C.P.A. (RETIRED)  
KENNETH A. PUTZIER, C.P.A. (RETIRED)  
W. J. HUNZELMAN, C.P.A. 1921-1997

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Storm Lake  
Storm Lake, Iowa 50588

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Storm Lake, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Storm Lake as of June 30, 2014, and the respective changes in its financial position and, where applicable, its cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

## Other Matters

### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, and the Schedule of Funding Progress for the Retiree Health Plan on pages 6 through 12 and 46 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Storm Lake's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for each of the years in the two year period ended June 30, 2013 (none of which are presented herein) and expressed unmodified opinions on those financial statements. The financial statements for the seven years ended June 30, 2011 (which are not presented herein) were audited by other auditors who expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2015 on our consideration of City of Storm Lake's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Storm Lake's internal control over financial reporting and compliance.

*Hungelman, Pitzler & Co., PLC*

January 31, 2015

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Storm Lake provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2014 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental activities increased 11.2%, or approximately \$1,075,000, from fiscal year 2013 to fiscal year 2014. Charges for service increased approximately \$478,000; operating grants, contributions, and restricted interest decreased approximately \$34,000; capital grants, contributions and restricted interest decreased approximately \$41,500, and property and other city tax revenues increased approximately \$215,000.
- Program expenses of the City's governmental activities increased 6.1%, or approximately \$567,000, more in fiscal year 2014 than in fiscal year 2013. Public safety expenses increased approximately \$118,000; culture and recreation expenses increased approximately \$356,000; public works expenses decreased approximately \$188,000; interest on long-term debt decreased approximately \$32,000.
- The City of Storm Lake's net position increased 20.2% or approximately \$9,527,000, from June 30, 2013, to June 30, 2014. Of this amount, the net position of the governmental activities increased approximately \$821,000 and the net position of the business type activities increased approximately \$8,706,000.

### **USING THIS ANNUAL REPORT**

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

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of City as a whole and present an overall view of the City's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which the City acts solely as an agent or custodian for the benefit of those outside of City government (Agency 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, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.
- Supplementary Information provides detailed information about the nonmajor governmental funds and the individual Agency Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

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

### *Government-wide Financial Statements*

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

The Statement of Net Position presents financial information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

The Statement of Net Position and the Statement of Activities report two kinds of activities:

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

### *Fund Financial Statements*

The City has three categories 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 left at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Tax Increment Financing, Local Option Sales Tax, and Employee Benefits Tax Levy, 3) the Debt Service Fund, and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances.

2) Proprietary funds account for the City's Enterprise Funds and Internal Service Funds. The funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Position and the Statement of Activities. The major difference between the proprietary funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The Enterprise Funds include the Water, Wastewater, Storm Water, Landfill and King's Pointe Funds, each considered to be a major fund of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES** - (Continued)

The City is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Fund Net Position, and a Statement of Cash Flows.

3) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the City's own programs. These fiduciary funds include a Pension Trust Fund, and various Agency Funds

The financial statement required for fiduciary funds is a Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position.

Reconciliations between the government-wide financial statements and the governmental fund financial statements follow the governmental fund financial statements.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

	<b>Net Position of Governmental Activities</b>					
	Net Position at Year-End					
	Governmental Activities		Business-Type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 14,876,847	\$ 14,606,653	\$ 15,112,320	\$ 18,560,112	\$ 29,989,167	\$ 33,166,765
Capital assets	<u>26,337,723</u>	<u>26,795,216</u>	<u>50,598,995</u>	<u>37,956,868</u>	<u>76,936,718</u>	<u>64,752,084</u>
Total assets	<u>41,214,570</u>	<u>41,401,869</u>	<u>65,711,315</u>	<u>56,516,980</u>	<u>106,925,885</u>	<u>97,918,849</u>
Long-term liabilities	25,256,810	26,278,400	16,215,225	17,093,691	41,472,035	43,372,091
Other liabilities	<u>799,141</u>	<u>725,105</u>	<u>3,450,234</u>	<u>2,083,812</u>	<u>4,249,375</u>	<u>2,808,917</u>
Total liabilities	<u>26,055,951</u>	<u>27,003,505</u>	<u>19,665,459</u>	<u>19,177,503</u>	<u>45,721,410</u>	<u>46,181,008</u>
Deferred inflows of resources	<u>4,516,956</u>	<u>4,577,848</u>	-	-	<u>4,516,956</u>	<u>4,577,848</u>
Net position						
Net investment in capital assets	1,353,550	1,381,666	35,148,696	21,032,642	36,502,246	22,414,308
Restricted	<u>8,377,376</u>	<u>6,662,151</u>	<u>1,769,837</u>	<u>1,582,042</u>	<u>10,147,213</u>	<u>8,244,193</u>
Unrestricted	<u>910,737</u>	<u>1,776,699</u>	<u>9,127,323</u>	<u>14,724,793</u>	<u>10,038,060</u>	<u>16,501,492</u>
Total net position	<u>\$ 10,641,663</u>	<u>\$ 9,820,516</u>	<u>\$ 46,045,856</u>	<u>\$ 37,339,477</u>	<u>\$ 56,687,519</u>	<u>\$ 47,159,993</u>

Net position of the City's governmental activities increased approximately \$821,000, or 8.36% over fiscal year 2013. Net position of business type activities increased approximately \$8,706,000, or 23.32%, over fiscal year 2013. The largest portion of the City's net position is invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS** – (Continued)

Restricted net position represents resources subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements.

**Changes in Net Position of Governmental Activities**

	Changes in Net Position for the Year Ended June 30,					
	Governmental Activities		Business-Type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Charges for service	\$ 2,631,250	\$ 2,153,541	\$ 10,917,914	\$ 11,335,911	\$ 13,549,164	\$ 13,489,452
Operating grants, contributions, and restricted interest	1,453,955	1,487,992	-	-	1,453,955	1,487,992
Capital grants, contributions, and restricted interest	457,518	499,066	9,295,430	3,544,566	9,752,948	4,043,632
General revenues:						
Property tax levied for:						
General purposes	3,907,381	3,395,934	-	-	3,907,381	3,395,934
Debt service	322,592	311,475	-	-	322,592	311,475
Tax increment financing	387,572	642,415	-	-	387,572	642,415
Other taxes	1,395,152	1,447,975	-	-	1,395,152	1,447,975
Unrestricted investment earnings	16,106	13,881	22,454	18,267	38,560	32,148
Miscellaneous	2,685	309	-	-	2,685	309
Transfers	62,521	(390,955)	(350,574)	146,027	(288,053)	(244,928)
Total revenues	<u>10,636,732</u>	<u>9,561,633</u>	<u>19,885,224</u>	<u>15,044,771</u>	<u>30,521,956</u>	<u>24,606,404</u>
Program expenses:						
Public safety	2,705,639	2,587,354	-	-	2,705,639	2,587,354
Public works	1,914,163	2,102,507	-	-	1,914,163	2,102,507
Health and social services	3,719	3,504	-	-	3,719	3,504
Culture and recreation	2,204,638	1,848,557	-	-	2,204,638	1,848,557
Community and economic development	760,656	598,318	-	-	760,656	598,318
General government	1,112,538	962,430	-	-	1,112,538	962,430
Interest on long-term debt	1,114,232	1,145,952	-	-	1,114,232	1,145,952
Water	-	-	3,213,652	3,044,219	3,213,652	3,044,219
Wastewater	-	-	2,014,583	1,987,106	2,014,583	1,987,106
Landfill	-	-	431,338	458,819	431,338	458,819
Storm water	-	-	269,098	341,469	269,098	341,469
King's Pointe	-	-	5,250,174	5,368,566	5,250,174	5,368,566
Total expenses	<u>9,815,585</u>	<u>9,248,622</u>	<u>11,178,845</u>	<u>11,200,179</u>	<u>20,994,430</u>	<u>20,448,801</u>
Increase in net position	821,147	313,011	8,706,379	3,844,592	9,527,526	4,157,603
Net position beginning of year	<u>9,820,516</u>	<u>9,507,505</u>	<u>37,339,477</u>	<u>33,494,885</u>	<u>47,159,993</u>	<u>43,002,390</u>
Net position end of year	<u>\$ 10,641,663</u>	<u>\$ 9,820,516</u>	<u>\$ 46,045,856</u>	<u>\$ 37,339,477</u>	<u>\$ 56,687,519</u>	<u>\$ 47,159,993</u>

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS** - (Continued)

The City's net position of governmental activities increased approximately \$821,000 during the year. Revenues for governmental activities increased approximately \$1,075,000 from the prior year.

The cost of all governmental activities this year was approximately \$9.8 million compared to approximately \$9.3 million last year. However, as shown in the Statement of Activities on page 14, the amount taxpayers ultimately financed for these activities was approximately only \$5.27 million because some of the cost was paid by those directly benefitting from the programs (approximately \$2.63 million) or by other governments and organizations which subsidized certain programs with grants and contributions (approximately \$1.9 million). The City paid the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts.

The City's net position of business type activities increased approximately \$8,706,000 during the year. Revenues for business type activities increased approximately \$4,840,000 over the prior year while total expenses were approximately \$21,000 less than the prior fiscal year.

## **INDIVIDUAL MAJOR FUND ANALYSIS**

### **Governmental Fund Highlights**

As the City of Storm Lake completed the year, its governmental funds reported a combined fund balance of \$8,544,917, an increase of \$839,272 from the prior year ending fund balance total of \$7,705,645. The following are the major reasons for the changes in fund balances of the major governmental funds from the prior year.

- From FY'13 to FY'14, the General Fund showed an increase in fund balance of \$178,212. Expenditures increased \$131,775, and revenues increased \$804,487.
- The Special Revenue, Road Use Tax Fund accounts for the road use tax allocation from the State of Iowa to be used for road construction and maintenance. This fund ended fiscal year 2014 with a \$399,790 balance compared to the prior year ending balance of \$200,115.
- The Special Revenue, Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for capital improvements, equipment, and community programs and services. This fund ended fiscal year 2014 with a \$742,794 balance compared to the prior year ending fund balance of \$616,667. Local option sales tax revenue decreased \$81,004 from fiscal year 2013.
- The Special Revenue, Special Levy Fund is used to account for property tax levied to finance the payment of employee benefits. This fund ended fiscal year 2014 with a \$39,099 fund balance compared to the prior year ending fund balance of \$12,656.
- The Special Revenue, Tax Increment Financing Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used for transfers to other funds to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal development projects. This fund ended fiscal year 2014 with a \$(308,622) balance compared to the prior year ending fund balance of \$(345,435). The deficit fund balance is a result of capital expenses in the new TIF areas.
- The Debt Service Fund ended fiscal year 2014 with a \$3,769,187 balance compared to the prior year ending fund balance of \$3,824,199.
- The Capital Projects Fund ended fiscal year 2014 with a \$2,182,771 balance compared to the prior year ending fund balance of \$1,774,967.

## **INDIVIDUAL MAJOR FUND ANALYSIS** – (Continued)

### **Proprietary Fund Highlights**

- The Enterprise, Water Fund, which accounts for the operation and maintenance of the City's water system, ended 2014 with a net position balance of \$8,630,389 compared to the prior year ending net position balance of \$8,785,502.
- The Enterprise, Wastewater Fund, which accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system, ended 2014 with a net position balance of \$17,408,941 compared to the prior year ending net position balance of \$8,384,163. The increase was primarily a result of increased capital assets from the FEMA project.
- The Enterprise, King's Pointe Fund, which accounts for the operation and maintenance of King's Pointe Resort, ended 2014 with a net position balance of \$17,687,787 compared to the prior year ending net position balance of \$18,512,083.
- The other major enterprise funds ended 2014 with a net position balance of \$2,318,739 compared to the prior year ending net position balance of \$1,657,729.
- The Internal Service Funds are used by management to charge the cost of employee health benefits, technology purchases, and fleet purchases to the individual funds. The net position of the Internal Service Fund decreased \$65,814 to \$1,086,910.

## **BUDGETARY HIGHLIGHTS**

During FY'14, The City of Storm Lake amended its budget one time. The amendment, approved May 28, 2014, increased expenses for the public safety, public works, culture and recreation, community and economic development, general government, debt service, and business-type activities.

The increase in expenses is due to additional capital projects, insurance increases, legal fees, TIF area expenses, May flood repairs, new hire expenses, and moving forward with all six of the FEMA project contracts.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The City's capital assets include land, buildings and improvements, equipment, streets, sewer systems, lighting systems, traffic signals, and other infrastructure. Capital assets for governmental activities totaled approximately \$26,338,000 (net of accumulated depreciation/amortization) at June 30, 2014. Capital assets for business-type activities totaled approximately \$50,599,000 (net of accumulated depreciation) at June 30, 2014. See Note 4 to the financial statements for more information about the City's capital assets.

The major capital outlays for governmental activities during the year included land purchased for the Airport RPZ project, final payments on the new fire truck, the CDBG housing program, payments on the Comprehensive Plan, payments on Vilas Road and the truck room heating projects and repairs from the flood of May 2013.

For business-type activities, major capital outlays included the East Central Storm Water Project, development of well #20, the Water Plant SCADA Project, the North Central and Expansion Blvd. Storm Water Projects, and the FEMA Sewer Mitigation Project.

Construction in progress at June 30, 2014 for governmental activities consists primarily of costs incurred in connection with the Lake Avenue Trail, Downtown Façade, Runway 13/31 Rehab, Sunset Park Trail, East 10<sup>th</sup> Street Reconstruction and West 5<sup>th</sup> Street Projects.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets – (Continued)**

Construction in progress at June 30, 2014 for business-type activities consists of costs associated with the FEMA Sewer Mitigation Project, Well #20, the North Central and Expansion Blvd. Storm Water Projects, and the Lime Press and Sodium Chlorite Project

### **Long Term Debt**

At June 30, 2014, the City had \$24,970,000 in total long-term debt outstanding for governmental activities. Total long-term debt outstanding for business-type activities was \$16,237,924 at June 30, 2014.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. At June 30, 2014, the city was at 70% of its constitutional debt limit of approximately \$22,431,000 with a computed outstanding balance of approximately \$15,746,000. While the total general obligation debt outstanding exceeds this amount, certain general obligation bonds include annual appropriation terms. The annual appropriation amount is the principal and interest due in the next year, and only this amount is required to be included in the computation of the statutory debt limit.

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

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

Development within Storm Lake continues to see growth; however over the past year, the majority of the new growth is related to two tax credit housing projects. Specifically, the large expansion at Buena Vista Regional Medical Center and plans for the faith based entities to expand.

Housing continues to be a major factor for growth in the community with potential relief in the form of vacant lots in Storm Lake's 3<sup>rd</sup> Addition and future redevelopment of the abandoned condo facility in the next four years.

Future budgets continue to allocate resources toward improving infrastructure, rehabilitating existing housing stock (through grants) and improving quality of life functions in hopes of stimulating additional development.

Revenues in Local Option Sales Tax remain steady and Hotel/Motel Tax has seen some increase. These revenues are both indicators of the healthy economy that Storm Lake has.

## **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 of Storm Lake'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 the City Clerk, P.O. Box 1086, 620 Erie Street, Storm Lake, Iowa, 50588.

CITY OF STORM LAKE  
STATEMENT OF NET POSITION  
JUNE 30, 2014

Exhibit A

	<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash, cash equivalents and pooled investments	\$ 5,756,538	\$ 7,756,005	\$ 13,512,543
U.S. Treasury Securities on deposit with escrow agent	3,656,078	-	3,656,078
Receivables:			
Property tax:			
Delinquent	13,265	-	13,265
Succeeding year	3,839,895	-	3,839,895
Tax increment financing:			
Succeeding year	677,061	-	677,061
Accounts	124,962	1,201,748	1,326,710
Accrued interest	3,608	1,914	5,522
Due from other governments	441,414	3,826,109	4,267,523
Due from other funds	79,665	104,753	184,418
Inventories and prepaids	279,361	361,938	641,299
Restricted assets:			
Cash and cash equivalents	-	1,859,853	1,859,853
Pledges receivable	5,000	-	5,000
Capital assets (net of accumulated depreciation/amortization)	26,337,723	50,598,995	76,936,718
Total assets	<u>\$ 41,214,570</u>	<u>\$ 65,711,315</u>	<u>\$ 106,925,885</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 508,024	\$ 2,757,840	\$ 3,265,864
Accrued interest payable	89,340	33,231	122,571
Accrued wages and benefits	90,006	116,193	206,199
Accrued expenses	7,018	373,289	380,307
Payable from restricted assets	-	90,016	90,016
Due to other funds	104,753	79,665	184,418
Long-term liabilities:			
Portion due or payable within one year	1,307,912	1,829,837	3,137,749
Portion due or payable after one year	23,948,898	14,385,388	38,334,286
Total liabilities	<u>26,055,951</u>	<u>19,665,459</u>	<u>45,721,410</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable revenues:			
Succeeding year property tax	3,839,895	-	3,839,895
Succeeding year tax increment financing	677,061	-	677,061
Total deferred inflows of resources	<u>4,516,956</u>	<u>-</u>	<u>4,516,956</u>
<u>NET POSITION</u>			
Net investment in capital assets	1,353,550	35,148,696	36,502,246
Restricted for:			
Roads	1,372,640	-	1,372,640
Debt service	3,822,094	1,769,837	5,591,931
Capital improvements	2,641,582	-	2,641,582
Other purposes	541,060	-	541,060
Unrestricted	910,737	9,127,323	10,038,060
Total net position	<u>\$ 10,641,663</u>	<u>\$ 46,045,856</u>	<u>\$ 56,687,519</u>

See Notes to Financial Statements.

CITY OF STORM LAKE  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014

Exhibit B

Functions/Programs:	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 2,705,639	\$ 483,737	\$ 82,354	\$ 48	\$ (2,139,500)	\$ -	\$ (2,139,500)
Public works	1,914,163	500,799	1,174,235	163,180	(75,949)	-	(75,949)
Health and social services	3,719	-	-	-	(3,719)	-	(3,719)
Culture and recreation	2,204,638	960,212	46,266	47,450	(1,150,710)	-	(1,150,710)
Community and economic development	760,656	13,251	137,505	189,378	(420,522)	-	(420,522)
General government	1,112,538	673,251	-	57,462	(381,825)	-	(381,825)
Interest on long-term debt	1,114,232	-	13,595	-	(1,100,637)	-	(1,100,637)
Total governmental activities	<u>9,815,585</u>	<u>2,631,250</u>	<u>1,453,955</u>	<u>457,518</u>	<u>(5,272,862)</u>	<u>-</u>	<u>(5,272,862)</u>
Business-type activities:							
Water	3,213,652	3,039,881	-	10,000	-	(163,771)	(163,771)
Sewer	2,014,583	2,216,127	-	8,889,064	-	9,090,608	9,090,608
King's Pointe	5,250,174	4,751,884	-	-	-	(498,290)	(498,290)
Landfill	431,338	493,808	-	-	-	62,470	62,470
Storm Water	269,098	416,214	-	396,366	-	543,482	543,482
Total business-type activities	<u>11,178,845</u>	<u>10,917,914</u>	<u>-</u>	<u>9,295,430</u>	<u>-</u>	<u>9,034,499</u>	<u>9,034,499</u>
Total	<u>\$20,994,430</u>	<u>\$13,549,164</u>	<u>\$ 1,453,955</u>	<u>\$ 9,752,948</u>	<u>(5,272,862)</u>	<u>9,034,499</u>	<u>3,761,637</u>
General Revenues and Transfers:							
Property and other city tax levied for:							
General purposes					3,907,381	-	3,907,381
Debt service					322,592	-	322,592
Tax increment financing					387,572	-	387,572
Hotel motel tax					299,551	-	299,551
Local option sales tax					1,095,601	-	1,095,601
Unrestricted interest on investments					16,106	22,454	38,560
Miscellaneous					2,685	-	2,685
Transfers					62,521	(350,574)	(288,053)
Total general revenues and transfers					<u>6,094,009</u>	<u>(328,120)</u>	<u>5,765,889</u>
Change in net position					821,147	8,706,379	9,527,526
Net position beginning of year					9,820,516	37,339,477	47,159,993
Net position end of year					<u>\$ 10,641,663</u>	<u>\$ 46,045,856</u>	<u>\$56,687,519</u>

See Notes to Financial Statements.

CITY OF STORM LAKE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014

Exhibit C

ASSETS	General	Special Revenue				Debt Service	Capital Projects	Nonmajor	Total
		Road Use Tax	Local Option Sales Tax	Special Levy	Tax Increment Financing				
Cash, cash equivalents and pooled investments	\$ 806,589	\$ 345,350	\$ 558,678	\$ -	\$ -	\$ 113,108	\$ 2,305,692	\$ 399,722	\$ 4,529,139
U.S. Treasury Securities on deposit with escrow agent	-	-	-	-	-	3,656,079	-	-	3,656,079
Receivables									
Property tax:									
Delinquent	7,882	-	-	3,986	-	1,159	-	238	13,265
Succeeding year	2,373,709	-	-	1,052,764	-	343,422	-	70,000	3,839,895
Tax increment financing:									
Succeeding year	-	-	-	-	677,061	-	-	-	677,061
Accounts	121,916	90	-	-	-	-	-	-	122,006
Accrued interest	725	-	-	-	-	-	2,876	7	3,608
Pledges	-	-	-	-	-	-	5,000	-	5,000
Due from other governments	94,892	81,783	184,116	-	-	-	80,623	-	441,414
Due from other funds	446,808	-	-	-	-	-	-	-	446,808
Inventories	46,663	1,315	-	-	-	-	-	-	47,978
Prepaid expenses	15,396	3,479	-	116,983	-	-	-	78,598	214,456
Total assets	<u>\$ 3,914,580</u>	<u>\$ 432,017</u>	<u>\$ 742,794</u>	<u>\$ 1,173,733</u>	<u>\$ 677,061</u>	<u>\$ 4,113,768</u>	<u>\$ 2,394,191</u>	<u>\$ 548,565</u>	<u>\$ 13,996,709</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES</u>									
<u>AND FUND BALANCES</u>									
Liabilities:									
Accounts payable	\$ 96,387	\$ 23,924	\$ -	\$ 9,748	\$ 9,615	\$ -	\$ 206,420	\$ 1,556	\$ 347,650
Salaries and benefits payable	81,704	8,303	-	-	-	-	-	-	90,007
Accrued liabilities	7,018	-	-	-	-	-	-	-	7,018
Due to other funds	104,753	-	-	68,136	299,007	-	-	-	471,896
Total liabilities	<u>289,862</u>	<u>32,227</u>	<u>-</u>	<u>77,884</u>	<u>308,622</u>	<u>-</u>	<u>206,420</u>	<u>1,556</u>	<u>916,571</u>
Deferred inflows of resources:									
Succeeding year property tax	2,373,709	-	-	1,052,764	-	343,422	-	70,000	3,839,895
Succeeding year tax increment financing	-	-	-	-	677,061	-	-	-	677,061
Other	7,882	-	-	3,986	-	1,159	5,000	238	18,265
Total deferred inflows of resources	<u>2,381,591</u>	<u>-</u>	<u>-</u>	<u>1,056,750</u>	<u>677,061</u>	<u>344,581</u>	<u>5,000</u>	<u>70,238</u>	<u>4,535,221</u>
Fund balances:									
Nonspendable:									
Prepaid expenditures	15,396	3,479	-	116,983	-	-	-	78,598	214,456
Other	46,663	1,315	-	-	-	-	-	2,714	50,692
Restricted:									
Streets	-	394,996	-	-	-	-	-	-	394,996
Capital improvements	-	-	742,794	-	-	-	-	-	742,794
Debt service	-	-	-	-	-	3,769,187	-	-	3,769,187
Other purposes	20,967	-	-	-	-	-	-	189,093	210,060
Assigned:									
Capital projects	-	-	-	-	-	-	2,182,771	-	2,182,771
Library	-	-	-	-	-	-	-	112,955	112,955
Law enforcement	-	-	-	-	-	-	-	93,411	93,411
Unassigned	1,160,101	-	-	(77,884)	(308,622)	-	-	-	773,595
Total fund balances	<u>1,243,127</u>	<u>399,790</u>	<u>742,794</u>	<u>39,099</u>	<u>(308,622)</u>	<u>3,769,187</u>	<u>2,182,771</u>	<u>476,771</u>	<u>8,544,917</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,914,580</u>	<u>\$ 432,017</u>	<u>\$ 742,794</u>	<u>\$ 1,173,733</u>	<u>\$ 677,061</u>	<u>\$ 4,113,768</u>	<u>\$ 2,394,191</u>	<u>\$ 548,565</u>	<u>\$ 13,996,709</u>

See Notes to Financial Statements.

CITY OF STORM LAKE  
RECONCILIATION OF THE BALANCE SHEET -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION  
JUNE 30, 2014

Exhibit D

Total governmental fund balances	\$ 8,544,917
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Certain receivables are not available financial resources and, therefore, are deferred inflows of resources in the governmental funds.	18,265
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$42,397,204 and the accumulated depreciation/amortization is \$16,059,481.	26,337,723
The Internal Service Fund is used by management to charge the costs of employee health benefits and fleet purchases to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities in the Statement of Net Position.	1,086,910
Long-term liabilities, including bonds payable, accrued interest payable, compensated absences payable, and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(25,346,152)</u>
Net position of governmental activities	<u>\$ 10,641,663</u>

CITY OF STORM LAKE  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2014

Exhibit E

Special Revenue

	Special Revenue								Total
	General	Road Use Tax	Local Option Sales Tax	Special Levy	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	
Revenues:									
Property tax	\$ 2,232,709	\$ -	\$ -	\$ 1,128,999	\$ -	\$ 329,069	\$ -	\$ 67,520	\$ 3,758,297
Tax increment financing	-	-	-	-	684,615	-	-	-	684,615
Other city tax	786,429	-	1,095,601	44,253	-	11,996	-	2,643	1,940,922
Licenses and permits	230,872	7,459	-	-	-	-	-	-	238,331
Use of money and property	144,190	-	1,762	-	-	13,595	7,372	967	167,886
Intergovernmental	81,846	1,053,426	-	-	-	-	344,932	6,658	1,486,862
Charges for services	1,595,825	22,984	-	125,000	3,562	-	-	468	1,747,839
Miscellaneous	307,561	-	-	-	-	-	42,450	50,674	400,685
Total revenues	<u>5,379,432</u>	<u>1,083,869</u>	<u>1,097,363</u>	<u>1,298,252</u>	<u>688,177</u>	<u>354,660</u>	<u>394,754</u>	<u>128,930</u>	<u>10,425,437</u>
Expenditures:									
Operating:									
Public safety	1,871,354	-	-	511,729	-	-	-	87,941	2,471,024
Public works	442,391	665,194	-	155,725	-	-	-	-	1,263,310
Health and social services	3,719	-	-	-	-	-	-	-	3,719
Culture and recreation	1,462,937	-	-	169,404	-	-	-	1,500	1,633,841
Community and economic development	464,692	-	-	27,675	220,243	-	-	5,900	718,510
General government	251,072	-	-	41,953	-	-	-	114,379	407,404
Debt service	-	-	-	-	-	2,027,158	-	-	2,027,158
Capital Projects	-	-	-	-	-	-	1,123,720	-	1,123,720
Total expenditures	<u>4,496,165</u>	<u>665,194</u>	<u>-</u>	<u>906,486</u>	<u>220,243</u>	<u>2,027,158</u>	<u>1,123,720</u>	<u>209,720</u>	<u>9,648,686</u>
Excess (deficiency) of revenues over expenditures	<u>883,267</u>	<u>418,675</u>	<u>1,097,363</u>	<u>391,766</u>	<u>467,934</u>	<u>(1,672,498)</u>	<u>(728,966)</u>	<u>(80,790)</u>	<u>776,751</u>
Other financing sources (uses):									
Operating transfers in	169,761	-	175,000	-	99,790	1,685,551	1,136,770	-	3,266,872
Operating transfers out	(874,816)	(219,000)	(1,146,236)	(365,323)	(530,911)	(68,065)	-	-	(3,204,351)
Total other financing sources (uses)	<u>(705,055)</u>	<u>(219,000)</u>	<u>(971,236)</u>	<u>(365,323)</u>	<u>(431,121)</u>	<u>1,617,486</u>	<u>1,136,770</u>	<u>-</u>	<u>62,521</u>
Net change in fund balances	178,212	199,675	126,127	26,443	36,813	(55,012)	407,804	(80,790)	839,272
Fund balances, beginning of year	<u>1,064,915</u>	<u>200,115</u>	<u>616,667</u>	<u>12,656</u>	<u>(345,435)</u>	<u>3,824,199</u>	<u>1,774,967</u>	<u>557,561</u>	<u>7,705,645</u>
Fund balances, end of year	<u>\$ 1,243,127</u>	<u>\$ 399,790</u>	<u>\$ 742,794</u>	<u>\$ 39,099</u>	<u>\$ (308,622)</u>	<u>\$ 3,769,187</u>	<u>\$ 2,182,771</u>	<u>\$ 476,771</u>	<u>\$ 8,544,917</u>

See Notes to Financial Statements.

CITY OF STORM LAKE  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit F

Net change in fund balances - Total governmental funds		\$ 839,272
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation/amortization expense to allocate those expenditures over the life of the assets. Depreciation/amortization expense exceeded capital outlay expenditures in the current year as follows:		
Expenditures for capital assets	\$ 1,059,019	
Depreciation/amortization expense	<u>(1,516,511)</u>	(457,492)
Because some revenues will not be collected for several months after the City's year end, they are not considered available revenues and are recognized as deferred inflows of resources in the governmental funds as follows:		
Property tax	(324,473)	
Other	<u>(62,949)</u>	(387,422)
The issuance of long-term debt (e.g., bonds, loan, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds an interest expenditure is reported when due. The following is the detail of the net effect of these differences in the treatment of long-term debt and related items:		
Repayment of bond principal	915,000	
Interest on long-term debt	5,624	
Amortization of bond discounts and premiums	<u>(7,697)</u>	912,927
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Compensated absences	(2,422)	
Other post employment benefits	<u>(17,902)</u>	(20,324)
The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net position of the Internal Service Fund is reported with governmental activities.		<u>(65,814)</u>
Change in net position of governmental activities		<u>\$ 821,147</u>

CITY OF STORM LAKE  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2014

Exhibit G

Enterprise Funds

	Enterprise Funds						Internal Service Funds
	Water	Wastewater	King's Pointe	Landfill	Storm Water	Total	
<u>ASSETS</u>							
Cash, cash equivalents and pooled investments	\$ 5,558,517	\$ 667,830	\$ 883,728	\$ 287,243	\$ 358,687	\$ 7,756,005	\$ 1,227,395
Receivables:							
Customer accounts and unbilled usage	434,055	351,917	245,814	92,050	77,912	1,201,748	2,955
Accrued interest	491	491	932	-	-	1,914	-
Due from other governments	-	3,735,730	-	-	90,379	3,826,109	-
Due from other funds	-	-	104,753	-	-	104,753	-
Inventories	79,449	218	52,450	-	2,496	134,613	9,429
Prepaid expenses	72,325	70,740	76,126	2,410	5,724	227,325	7,498
Restricted cash and cash equivalents	190,776	1,605,155	-	-	63,922	1,859,853	-
Capital assets	9,511,950	20,903,214	17,151,710	-	3,032,121	50,598,995	-
Total assets	<u>\$ 15,847,563</u>	<u>\$ 27,335,295</u>	<u>\$ 18,515,513</u>	<u>\$ 381,703</u>	<u>\$ 3,631,241</u>	<u>\$ 65,711,315</u>	<u>\$ 1,247,277</u>
<u>LIABILITIES AND NET POSITION</u>							
Liabilities:							
Accounts Payable	\$ 222,560	\$ 2,157,416	\$ 264,905	\$ 1,059	\$ 111,900	\$ 2,757,840	\$ 160,367
Salaries and benefits payable	20,204	13,162	80,838	445	1,544	116,193	-
Accrued liabilities	-	-	373,289	-	-	373,289	-
Customer deposits payable from restricted assets	90,016	-	-	-	-	90,016	-
Due to other funds	-	-	79,665	-	-	79,665	-
Compensated absences	66,063	48,403	-	2,042	6,405	122,913	-
Interest payable	13,199	16,361	105	-	3,566	33,231	-
Note payable - bank	-	-	28,924	-	-	28,924	-
Revenue notes payable - short-term	380,000	1,220,000	-	-	78,000	1,678,000	-
Revenue notes payable - long-term	6,425,132	6,471,012	-	-	1,489,244	14,385,388	-
Total liabilities	<u>7,217,174</u>	<u>9,926,354</u>	<u>827,726</u>	<u>3,546</u>	<u>1,690,659</u>	<u>19,665,459</u>	<u>160,367</u>
Net position:							
Net investment in capital assets	2,681,950	13,115,214	17,910,411	-	1,441,121	35,148,696	-
Restricted for revenue bond retirement	100,760	1,605,155	-	-	63,922	1,769,837	-
Unrestricted	5,847,679	2,688,572	(222,624)	378,157	435,539	9,127,323	1,086,910
Total net position	<u>8,630,389</u>	<u>17,408,941</u>	<u>17,687,787</u>	<u>378,157</u>	<u>1,940,582</u>	<u>46,045,856</u>	<u>1,086,910</u>
Total liabilities and net position	<u>\$ 15,847,563</u>	<u>\$ 27,335,295</u>	<u>\$ 18,515,513</u>	<u>\$ 381,703</u>	<u>\$ 3,631,241</u>	<u>\$ 65,711,315</u>	<u>\$ 1,247,277</u>

See Notes to Financial Statements.

CITY OF STORM LAKE  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2014

Exhibit H

	Enterprise					Total	Internal Service Funds
	Water	Wastewater	King's Pointe	Landfill	Storm Water		
Operating revenues:							
Charges for services	\$ 2,835,347	\$ 2,198,647	\$ 4,714,985	\$ 493,203	\$ 412,370	\$ 10,654,552	\$ 865,491
Miscellaneous	204,534	17,480	36,899	605	3,844	263,362	173,149
Total operating revenues	<u>3,039,881</u>	<u>2,216,127</u>	<u>4,751,884</u>	<u>493,808</u>	<u>416,214</u>	<u>10,917,914</u>	<u>1,038,640</u>
Operating expenses:							
Business type activities:							
Cost of sales and services	2,222,321	1,321,592	4,416,915	431,338	155,211	8,547,377	1,107,097
Depreciation and amortization	799,913	476,241	833,259	-	66,303	2,175,716	-
Total operating expenses	<u>3,022,234</u>	<u>1,797,833</u>	<u>5,250,174</u>	<u>431,338</u>	<u>221,514</u>	<u>10,723,093</u>	<u>1,107,097</u>
Operating income (loss)	<u>17,647</u>	<u>418,294</u>	<u>(498,290)</u>	<u>62,470</u>	<u>194,700</u>	<u>194,821</u>	<u>(68,457)</u>
Non-operating revenues (expenses)							
Interest income	12,986	4,595	2,315	488	2,070	22,454	2,643
Interest expense	(191,418)	(216,750)	-	-	(47,584)	(455,752)	-
Net non-operating revenues (expenses)	<u>(178,432)</u>	<u>(212,155)</u>	<u>2,315</u>	<u>488</u>	<u>(45,514)</u>	<u>(433,298)</u>	<u>2,643</u>
Excess (deficiency) of revenues over expenditures	<u>(160,785)</u>	<u>206,139</u>	<u>(495,975)</u>	<u>62,958</u>	<u>149,186</u>	<u>(238,477)</u>	<u>(65,814)</u>
Other financing sources (uses)							
Capital contributions	10,000	8,889,064	-	-	396,366	9,295,430	-
Operating transfers in	59,690	53,375	637,462	-	64,500	815,027	-
Operating transfers out	(64,018)	(123,800)	(965,783)	(10,000)	(2,000)	(1,165,601)	-
Total other financing sources (uses)	<u>5,672</u>	<u>8,818,639</u>	<u>(328,321)</u>	<u>(10,000)</u>	<u>458,866</u>	<u>8,944,856</u>	<u>-</u>
Change in net position	(155,113)	9,024,778	(824,296)	52,958	608,052	8,706,379	(65,814)
Net position beginning of year	<u>8,785,502</u>	<u>8,384,163</u>	<u>18,512,083</u>	<u>325,199</u>	<u>1,332,530</u>	<u>37,339,477</u>	<u>1,152,724</u>
Net position end of year	<u>\$ 8,630,389</u>	<u>\$ 17,408,941</u>	<u>\$ 17,687,787</u>	<u>\$ 378,157</u>	<u>\$ 1,940,582</u>	<u>\$ 46,045,856</u>	<u>\$ 1,086,910</u>

See Notes to Financial Statements.

CITY OF STORM LAKE  
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2014

Exhibit I

	Enterprise Funds						Internal Service Funds
	<u>Water</u>	<u>Wastewater</u>	<u>King's Pointe</u>	<u>Landfill</u>	<u>Storm Water</u>	<u>Total</u>	
Cash flows from operating activities:							
Receipts from customers	\$ 3,131,803	\$ 2,249,500	\$ 4,168,578	\$ 498,280	\$ 415,374	\$ 10,463,535	\$ 1,035,685
Cash paid for personal services	(746,699)	(666,704)	(1,082,163)	(25,719)	(109,355)	(2,630,640)	-
Cash paid to suppliers	(1,512,840)	(728,274)	(2,786,882)	(405,796)	(126,512)	(5,560,304)	(987,015)
Net cash provided by operating activities	<u>872,264</u>	<u>854,522</u>	<u>299,533</u>	<u>66,765</u>	<u>179,507</u>	<u>2,272,591</u>	<u>48,670</u>
Cash flows from noncapital financing activities:							
Advances from other funds	59,690	53,375	637,462	-	64,500	815,027	-
Advances to other funds	(64,018)	(123,800)	(965,783)	(10,000)	(2,000)	(1,165,601)	-
Net cash provided (used) by noncapital financing activities	<u>(4,328)</u>	<u>(70,425)</u>	<u>(328,321)</u>	<u>(10,000)</u>	<u>62,500</u>	<u>(350,574)</u>	<u>-</u>
Cash flows from capital and related financing activities:							
Acquisition of capital assets	(653,833)	(10,967,466)	(35,476)	-	(1,661,259)	(13,318,034)	-
Proceeds from capital grants	10,000	6,476,506	-	-	468,949	6,955,455	-
Repayment of revenue bonds	(369,000)	(304,000)	-	-	(62,000)	(735,000)	-
Interest payments	(219,061)	(213,584)	-	-	(46,261)	(478,906)	-
Net cash used by capital and related financing activities	<u>(1,231,894)</u>	<u>(5,008,544)</u>	<u>(35,476)</u>	<u>-</u>	<u>(1,300,571)</u>	<u>(7,576,485)</u>	<u>-</u>
Cash flows from investing activities:							
Interest on investments	12,633	4,569	2,153	488	2,070	21,913	2,643
Net cash provided by investing activities	<u>12,633</u>	<u>4,569</u>	<u>2,153</u>	<u>488</u>	<u>2,070</u>	<u>21,913</u>	<u>2,643</u>
Net increase (decrease) in cash and cash equivalents	(351,325)	(4,219,878)	(62,111)	57,253	(1,056,494)	(5,632,555)	51,313
Cash and cash equivalents, beginning of year	<u>6,100,618</u>	<u>6,492,863</u>	<u>945,839</u>	<u>229,990</u>	<u>1,479,103</u>	<u>15,248,413</u>	<u>1,176,082</u>
Cash and cash equivalents, end of year	<u>\$ 5,749,293</u>	<u>\$ 2,272,985</u>	<u>\$ 883,728</u>	<u>\$ 287,243</u>	<u>\$ 422,609</u>	<u>\$ 9,615,858</u>	<u>\$ 1,227,395</u>

See Notes to Financial Statements.

CITY OF STORM LAKE  
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2014

Exhibit I  
(continued)

	Enterprise Funds						Internal Service Funds
	<u>Water</u>	<u>Wastewater</u>	<u>King's Pointe</u>	<u>Landfill</u>	<u>Storm Water</u>	<u>Total</u>	
Reconciliation of operating income (loss) to net cash provided by operating activities							
Operating income (loss)	\$ 17,647	\$ 418,294	\$ (498,290)	\$ 62,470	\$ 194,700	\$ 194,821	\$ (68,457)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:							
Depreciation	799,913	476,241	833,259	-	66,303	2,175,716	-
(Increase) decrease in accounts receivable and unbilled usage	49,505	33,373	(37,944)	4,472	(840)	48,566	(2,955)
Decrease in due from other governments	148	-	-	-	-	148	-
Increase in due from other funds	-	-	(15,025)	-	-	(15,025)	-
(Increase) decrease in inventories	18,397	395	(13,780)	-	292	5,304	3,967
(Increase) decrease in prepaid expenses	(11,863)	(11,696)	(13,650)	(361)	(1,192)	(38,762)	1,388
Increase (decrease) in accounts payable	(19,876)	(71,553)	65,151	(117)	(78,551)	(104,946)	(5,956)
Increase (decrease) in salaries and benefits payable	10,747	4,879	(48,699)	73	34	(32,966)	-
Increase in accrued expenses	-	-	21,015	-	-	21,015	-
Increase in due to other funds	-	-	7,496	-	-	7,496	-
Increase (decrease) in incurred and unpaid claims	(1,080)	-	-	-	-	(1,080)	120,683
Increase (decrease) in compensated absences	8,726	4,589	-	228	(1,239)	12,304	-
Net cash provided by operating activities	<u>\$ 872,264</u>	<u>\$ 854,522</u>	<u>\$ 299,533</u>	<u>\$ 66,765</u>	<u>\$ 179,507</u>	<u>\$ 2,272,591</u>	<u>\$ 48,670</u>
Reconciliation of cash and cash equivalents to specific assets included on the statement of net position - proprietary funds							
Cash and cash equivalents	\$ 5,558,517	\$ 667,830	\$ 883,728	\$ 287,243	\$ 358,687	\$ 7,756,005	\$ 1,227,395
Restricted cash and cash equivalents	190,776	1,605,155	-	-	63,922	1,859,853	-
	<u>\$ 5,749,293</u>	<u>\$ 2,272,985</u>	<u>\$ 883,728</u>	<u>\$ 287,243</u>	<u>\$ 422,609</u>	<u>\$ 9,615,858</u>	<u>\$ 1,227,395</u>

CITY OF STORM LAKE  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2014

Exhibit J

	Pension Trust	Agency		
	<u>Police/Fire</u>	<u>Lake Improvements Commission</u>	<u>Gingerbread House</u>	<u>Drainage</u>
Assets:				
Cash, cash equivalents and pooled investments	\$ -	\$ 999,488	\$ 19,363	\$ (19,421)
Interest receivable	-	1,311	-	-
Due from other governments	-	61,341	-	19,421
Total assets	<u>\$ -</u>	<u>\$ 1,062,140</u>	<u>\$ 19,363</u>	<u>\$ -</u>
Liabilities:				
Accounts payable	\$ -	\$ 27,669	\$ 19,363	\$ -
Due to other governments	-	1,034,471	-	-
Total liabilities	<u>-</u>	<u>1,062,140</u>	<u>19,363</u>	<u>-</u>
Net Position				
Reserved for pensions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and net position	<u>\$ -</u>	<u>\$ 1,062,140</u>	<u>\$ 19,363</u>	<u>\$ -</u>

See Notes to Financial Statements.

CITY OF STORMLAKE  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2014

Exhibit K

	<u>Pension Trust</u>
	<u>Police/Fire</u>
Additions:	
Transfers in	\$ 288,053
Deductions:	
Public safety	<u>288,053</u>
Change in net position	-
Net position beginning of year	<u>-</u>
Net position end of year	<u>\$ -</u>

See Notes to Financial Statements.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

1. Summary of Significant Accounting Policies

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

The financial statements of the City of Storm Lake have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

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

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

The City's ongoing financial interest in the jointly governed organization consists of the operation of the landfill and other solid waste collection and disposal operations. The City collects landfill fees as a part of its regular utility billings. The Commission then bills the City quarterly for its operations. This fee is computed for each municipality on a per capita basis. For the year ended June 30, 2014, this fee totaled \$371,000.

Copies of the Commission's financial statements are available from the City Clerk at the City of Alta, 223 Main Street, Alta, IA 51002 or from the State Auditor's Office.

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

Copies of the Commission's financial statements are available from the City Clerk at City of Storm Lake, P.O. Box 1086, 620 Erie Street, Storm Lake, IA 50588 or from the State Auditor's Office.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

1. Summary of Significant Accounting Policies - (Continued)

A. Reporting Entity - (Continued)

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

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Position presents the City's nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

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

*Restricted net position* results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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

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

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

1. Summary of Significant Accounting Policies - (Continued)

B. Basis of Presentation - (Continued)

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues from general and emergency levies and other revenues 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 expenditures, the fixed charges, and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

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

The Special Levy Fund is used to account for property tax levied to finance the payment of employee benefits.

The Tax Increment Financing Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used for transfers to other funds to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal development projects.

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Wastewater Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The King's Pointe Fund is used to account for the operation of a hotel facility and indoor water park.

The Landfill Fund is used to account for the City's share of the operation and maintenance of the landfill.

The Storm Water Fund is used to account for the operation and maintenance of the City's storm water system.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

1. Summary of Significant Accounting Policies - (Continued)

B. Basis of Presentation - (Continued)

Additionally, the City also reports the following funds:

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

Fiduciary Fund – Account for assets held by the City in a trustee or agency capacity for the benefit of others. Fiduciary funds account for assets held by the City under the terms of a formal trust agreement and which cannot be used to support City activities.

C. Measurement Focus and Basis of Accounting

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

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

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

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

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned, and then unassigned fund balances.

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

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

1. Summary of Significant Accounting Policies - (Continued)

C. Measurement Focus and Basis of Accounting – (Continued)

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

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

D. Assets, Liabilities, Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents and Pooled Investments - The cash balances of most City funds are pooled and invested in interest-bearing cash accounts or certificates of deposit. Interest earned on investments is recognized as revenue when earned and allocated to the funds on a systematic basis, or as provided by law. Investments consist of non-negotiable certificates of deposit which are stated at cost.

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

Property Tax Receivable, Including Tax Increment Financing – Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2014 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

1. Summary of Significant Accounting Policies - (Continued)

D. Assets, Liabilities, and Fund Equity- (Continued)

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2013.

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

Due from and Due to Other Funds – During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2014, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Prepays – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid in both the government-wide and fund financial statements on the consumption method.

Inventories – Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets – Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Interest Capitalized - Construction period interest for business-type activities is capitalized. For projects paid with taxable bonds, interest is capitalized at the amount of cash paid at the effective interest rate to the earlier of the date the asset is placed in service or year end. No amounts were capitalized in 2014.

Capital Assets – Capital assets, which include property, equipment and vehicles, intangibles and infrastructure assets acquired after July 1, 1980 (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the City) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position and in the Proprietary Funds Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of \$5,000 and estimated useful lives in excess of two years.

CITY OF STORMLAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Assets, Liabilities, and Fund Equity- (Continued)

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings and improvements	20 – 40 years
Equipment and vehicles	5 – 20 years
Infrastructure	20 years

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

Compensated Absences – City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2014. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-Term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Position and the proprietary fund Statement of Net Position.

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

Deferred Inflows of Resources – Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Assets, Liabilities, and Fund Equity- (Continued)

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the community and economic development and debt service functions.

F. Use of Estimates

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

G. Subsequent Events

The City has evaluated subsequent events through the date of the auditors' report, which is the date the financial statements were available to be issued.

2. Cash, Cash Equivalents and Pooled Investments

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

2. Cash, Cash Equivalents and Pooled Investments - (Continued)

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

3. Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2014 is as follows:

	<u>Interfund</u> <u>Receivables</u>	<u>Interfund</u> <u>Payables</u>
General Fund	\$ 446,808	\$ 104,753
Special Revenue Funds:		
Special Levy	-	68,136
Tax Increment Financing	-	299,007
Proprietary Funds:		
King's Pointe	<u>104,753</u>	<u>79,665</u>
	<u>\$ 551,561</u>	<u>\$ 551,561</u>

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

4. Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows:

	Balance Beginning of <u>Year</u>	<u>Increases</u>	<u>Decreases</u>	Balance End of <u>Year</u>
Governmental activities:				
Capital assets not being depreciated/amortized:				
Land	\$ 3,227,776	\$ 447,470	\$ -	\$ 3,675,246
Construction in progress	<u>153,981</u>	<u>436,967</u>	<u>-</u>	<u>590,948</u>
Total capital assets not being depreciated/amortized:	<u>3,381,757</u>	<u>884,437</u>	<u>-</u>	<u>4,266,194</u>
Capital assets being depreciated/amortized:				
Buildings	5,966,392	-	-	5,966,392
Improvements other than buildings	15,521,994	-	-	15,521,994
Equipment and vehicles	5,752,731	174,582	-	5,927,313
Intangibles	43,421	-	-	43,421
Infrastructure, road network	<u>10,671,890</u>	<u>-</u>	<u>-</u>	<u>10,671,890</u>
Total capital assets being depreciated/amortized	<u>37,956,428</u>	<u>174,582</u>	<u>-</u>	<u>38,131,010</u>
Less accumulated depreciation/amortization for:				
Buildings	3,134,226	166,160	-	3,300,386
Improvements other than buildings	5,333,863	506,691	-	5,840,554
Equipment and vehicles	3,745,255	350,471	-	4,095,726
Intangibles	43,421	-	-	43,421
Infrastructure, road network	<u>2,286,204</u>	<u>493,189</u>	<u>-</u>	<u>2,779,393</u>
Total accumulated depreciation/amortization	<u>14,542,969</u>	<u>1,516,511</u>	<u>-</u>	<u>16,059,480</u>
Total capital assets being depreciated/amortized, net	<u>23,413,459</u>	<u>(1,341,929)</u>	<u>-</u>	<u>22,071,530</u>
Governmental activities capital assets, net	<u>\$ 26,795,216</u>	<u>\$ (457,492)</u>	<u>\$ -</u>	<u>\$ 26,337,724</u>

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

4. Capital Assets- (Continued)

	Balance Beginning of <u>Year</u>	<u>Increases</u>	<u>Decreases</u>	Balance End of <u>Year</u>
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 401,051	\$ 209,532	\$ -	\$ 610,583
Construction in progress	6,294,209	14,356,162	304,807	20,345,564
Total capital assets not being depreciated	<u>6,695,260</u>	<u>14,565,694</u>	<u>304,807</u>	<u>20,956,147</u>
Capital assets being depreciated:				
Buildings	29,730,601	-	-	29,730,601
Equipment and vehicles	3,747,479	252,149	-	3,999,628
Infrastructure, road network	25,826,455	304,807	-	26,131,262
Total capital assets being depreciated	<u>59,304,535</u>	<u>556,956</u>	<u>-</u>	<u>59,861,491</u>
Less accumulated depreciation for:				
Buildings	12,352,752	803,245	-	13,155,997
Equipment and vehicles	2,302,709	422,149	-	2,724,858
Infrastructure, road network	13,387,466	950,322	-	14,337,788
Total accumulated depreciation	<u>28,042,927</u>	<u>2,175,716</u>	<u>-</u>	<u>30,218,643</u>
Total capital assets being depreciated, net	<u>31,261,608</u>	<u>(1,618,760)</u>	<u>-</u>	<u>29,642,848</u>
Business-type activities capital assets, net	<u>\$37,956,868</u>	<u>\$12,946,934</u>	<u>\$ 304,807</u>	<u>\$50,598,995</u>
Depreciation/amortization expense was charged to the following functions:				
Governmental activities:				
Public safety				\$ 200,040
Public works				731,355
Culture and recreation				487,969
General government				97,147
Total depreciation/amortization expense-governmental activities				<u>\$ 1,516,511</u>
Governmental activities:				
Water				\$ 799,913
Wastewater				476,241
Storm water				66,303
King's Pointe				833,259
Total depreciation expense-business type activities				<u>\$ 2,175,716</u>

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

5. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Special Levy	\$ 77,270
	Local Option Sales Tax	5,463
	Enterprise:	
	Water	44,089
	Sewer	42,939
		<u>169,761</u>
Debt Service	General	142,951
	Special Revenue:	
	Local Option Sales Tax	410,897
	Tax increment financing	340,920
	Enterprise:	
	King's Pointe	790,783
		<u>1,685,551</u>
Capital Projects	General	667,365
	Special Revenue:	
	Road Use Tax	169,000
	Local Option Sales Tax	282,405
	Enterprise:	
	Water	3,000
	Sewer	3,000
	Storm Water	2,000
	Landfill	10,000
		<u>1,136,770</u>
Special Revenue:	Enterprise:	
Local Option Sales Tax	King's Pointe	175,000
Tax increment financing	Special Revenue:	
	Road Use Tax	50,000
	Enterprise:	
	Water	16,929
	Sewer	32,861
		<u>99,790</u>

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

5. Interfund Transfers - (Continued)

Enterprise: Water	Enterprise: Sewer	45,000
	Debt Service	<u>14,690</u>
		<u>59,690</u>
Wastewater	Debt Service	53,375
Storm Water	General	64,500
King's Pointe	Special Revenue: Local Option Sales Tax	447,471
	Tax increment financing	<u>189,991</u>
		<u>637,462</u>
Pension Trust: Police/Fire	Special Revenue: Special Levy	288,053

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

6. Long-term Liabilities

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2014:

	<u>Balance, Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance, End of Year</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
General obligation bonds/notes	\$25,885,000	\$ -	\$ 915,000	\$24,970,000	\$ 970,000
Compensated absences	335,490	2,422	-	337,912	337,912
Net OPEB liability	<u>57,910</u>	<u>21,457</u>	<u>3,555</u>	<u>75,812</u>	<u>-</u>
	26,278,400	23,879	918,555	25,383,724	1,307,912
Discounts on issuance	(145,542)	-	(10,172)	(135,370)	-
Premiums on issuance	<u>10,931</u>	<u>-</u>	<u>2,475</u>	<u>8,456</u>	<u>-</u>
Totals	<u>\$26,143,789</u>	<u>\$ 23,879</u>	<u>\$ 910,858</u>	<u>\$25,256,810</u>	<u>\$1,307,912</u>
<b>Business-Type Activities:</b>					
Note payable - bank	\$ 39,082	\$ -	\$ 10,158	\$ 28,924	\$ 28,924
Revenue bonds	16,944,000	-	735,000	16,209,000	1,678,000
Compensated absences	<u>110,609</u>	<u>12,304</u>	<u>-</u>	<u>122,913</u>	<u>122,913</u>
	17,093,691	12,304	745,158	16,360,837	1,829,837
Discounts on issuance	(172,087)	-	(10,745)	(161,342)	-
Premiums on issuance	<u>16,569</u>	<u>-</u>	<u>839</u>	<u>15,730</u>	<u>-</u>
Totals	<u>\$16,938,173</u>	<u>\$ 12,304</u>	<u>\$ 735,252</u>	<u>\$16,215,225</u>	<u>\$1,829,837</u>

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

6. Long-term Liabilities - (Continued)

Annual debt service requirements to maturity for general obligation bonds/notes and revenue bonds at June 30, 2014 are as follows:

Year Ending	<u>Governmental Activities</u> General Obligation Bonds/Notes		<u>Business-Type Activities</u> Revenue Bonds/Notes		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
June 30,						
2015	970,000	1,069,553	1,678,000	442,258	2,648,000	1,511,811
2016	1,410,000	1,031,143	801,000	416,975	2,211,000	1,448,118
2017	1,490,000	984,950	820,000	399,535	2,310,000	1,384,485
2018	1,655,000	933,291	834,000	380,654	2,489,000	1,313,945
2019	1,570,000	875,571	859,000	360,669	2,429,000	1,236,240
2020-2024	8,940,000	3,392,613	4,621,000	1,456,078	13,561,000	4,848,691
2025-2029	7,920,000	1,005,493	3,646,000	836,525	11,566,000	1,842,018
2030-2033	1,015,000	77,490	2,950,000	242,950	3,965,000	320,440
Totals	<u>\$24,970,000</u>	<u>\$ 9,370,104</u>	<u>\$ 16,209,000</u>	<u>\$ 4,535,644</u>	<u>\$ 41,179,000</u>	<u>\$ 13,905,748</u>

General Obligation Bonds/Notes

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as serial bonds with substantially equal amounts of principal plus interest maturing each year. General obligation bond debt service related to the \$5,400,000 bond issue in 2006 and the \$2,700,000 bond issue in 2011 are subject to annual appropriation by the City Council. In accordance with the Code of Iowa, only that portion subject to the annual appropriation by the City Council is included in the computation of the statutory debt limit.

Details of general obligation bonds/notes payable at June 30, 2014 are as follows:

	Year of <u>Issue</u>	Interest <u>Rates</u>	Amount Originally <u>Issued</u>	Year of <u>Maturity</u>	Annual Principal <u>Payments</u>	Outstanding <u>Balance</u>
Essential corporate purpose	2005	3.75% - 4.25%	\$5,600,000	2025	\$185,000 - \$435,000	\$ 3,885,000
Urban renewal	2006	5.25% - 5.70%	6,000,000	2025	130,000 - 390,000 <sup>1</sup>	5,380,000
Urban renewal	2006	4.00% - 4.75%	5,400,000	2026	205,000 - 385,000	3,725,000
Urban renewal	2007	5.45% - 5.65%	2,945,000	2027	5,000 - 100,000 <sup>2</sup>	2,900,000
Capital loan notes	2010	2.00% - 6.10%	2,500,000	2029	40,000 - 200,000	2,165,000
Urban renewal	2011	2.00% - 4.20%	2,700,000	2031	110,000 - 185,000 <sup>3</sup>	2,700,000
Urban renewal	2012	1.00% - 2.20%	3,825,000	2025	350,000 - 425,000	3,825,000
Capital loan notes	2013	1.00% - 2.00%	480,000	2018	90,000 - 100,000	390,000
Total						<u>\$24,970,000</u>

<sup>1</sup> One additional \$2,330,000 payment in 2025.

<sup>2</sup> Additional annual payments of \$945,000 and \$1,125,000 in 2026 and 2027, respectively.

<sup>3</sup> One additional \$830,000 payment in 2031.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

6. Long-term Liabilities - (Continued)

General Obligation Advanced Refunding Notes

In February 2012 the City issued \$3,825,000 of general obligation refunding notes to advance refund the 2005 general obligation bonds under a crossover refunding arrangement. The proceeds of the 2012 refunding notes were placed in an irrevocable trust fund to provide for the future debt service of the 2005 notes. Interest on the 2012 refunding notes will be paid from the escrow account through June 1, 2015, on which date the 2005 notes will be called for redemption and also paid from the escrow account. As a result of the advance refunding, the City achieved a debt service savings of \$206,045. The escrow account assets and the liability for the notes are included in the City's financial statements until defeasance occurs.

Revenue Bonds/Notes

The City issues bonds/notes where the government pledges income derived from the required or constructed assets to pay debt service. Details of revenue bonds/notes payable at June 30, 2014 are as follows:

	Year of <u>Issue</u>	Interest <u>Rates</u>	Amount Originally <u>Issued</u>	Year of <u>Maturity</u>	Annual Principal <u>Payments</u>	Outstanding <u>Balance</u>
Water revenue	2003	3.00%	\$7,500,000	2024	\$324,000 - \$490,000	\$ 4,300,000
Storm water revenue	2006	3.00%	729,000	2027	29,000 - 48,000	521,000
Wastewater revenue	2007	3.00%	660,000	2027	25,000 - 44,000	473,000
Wastewater revenue	2010	3.00%	900,000	2014	None <sup>4</sup>	900,000
Water capital loan note	2011	4.40% - 5.00%	200,000	2031	5,000 - 15,000	190,000
Sewer capital loan note	2011	3.00% - 5.00%	680,000	2031	25,000 - 50,000	630,000
Storm water revenue	2013	1.00% - 3.50%	1,100,000	2033	30,000 - 75,000	1,070,000
Sewer capital loan note	2013	0.50% - 3.25%	6,035,000	2033	250,000 - 370,000	5,785,000
Water capital loan note	2013	3.00% - 3.25%	2,340,000	2033	230,000 - 295,000	2,340,000
Total						<u>\$16,209,000</u>

<sup>4</sup> One \$900,000 payment on December 1, 2014.

The City has pledged future water customer revenues, net of specified operating expenses, to repay \$7,500,000, \$200,000 and \$2,340,000 in water revenue notes issued in August 2003, August 2011 and April 2013 respectively. Proceeds from the notes provided financing for the construction of improvements to the water system. The notes are payable solely from water customer net revenues and are payable through 2033. Annual principal and interest payments on the notes are expected to require less than 60 percent of net revenues. The total principal and interest remaining to be paid on the notes is \$8,858,605. For the current year, principal and interest paid and total customer net revenues (operating revenues plus depreciation expense) were \$575,301 and \$817,560 respectively.

The City has pledged future wastewater customer receipts, net of specified operating disbursements, to repay \$660,000, \$900,000, \$680,000 and \$6,035,000 in wastewater revenue notes issued in April 2007, June 2010, August 2011 and May 2013 respectively. Proceeds from the notes provided financing for the construction of improvements to the wastewater treatment plant. The notes are payable solely from wastewater customer net receipts and are payable through 2033. Annual principal and interest payments on the notes are expected to require less than 50 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$9,908,681. For the current year, principal and interest paid and total customer net revenues were \$514,729 and \$894,535 respectively.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

6. Long-term Liabilities - (Continued)

Revenue Bonds/Notes – (Continued)

The City has pledged future storm water customer receipts, net of specified operating disbursements, to repay \$729,000 and \$1,100,000 in storm water revenue notes issued in October 2006 and May 2013. Proceeds from the notes provided financing for the construction of improvements to the storm water system. The notes are payable solely from storm water customer net receipts and are payable through 2033. Annual principal and interest payments on the notes are expected to require less than 50 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$2,057,578. For the current year, principal and interest paid and total customer net revenues were \$106,279 and \$261,003 respectively.

The resolutions providing for the issuance of revenue notes include the following provisions:

- A. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to separate revenue note sinking and reserve accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- C. The City is to establish user rates at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

The City has not established the reserve account as required by the storm water revenue note resolution.

7. Pension and Retirement Benefits

Municipal Fire and Police Retirement System

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, West Des Moines, Iowa 50266.

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, cannot be less than 30.12% of earnable compensation. Contribution rates are established by state statute. The City's contributions to the Plan for the years ended June 30, 2014, 2013, and 2012 were \$288,053, \$244,928, and \$221,534, respectively, which met the required minimum contribution requirement for each year.

Iowa Public Employees Retirement System

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

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

7. Pension and Retirement Benefits - (Continued)

Iowa Public Employees Retirement System – (Continued)

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State stature. The City's contribution to IPERS for the years ended June 30, 2014, 2013, 2012, were \$199,453, \$158,050, and \$140,803 respectively, equal to the required contributions for each year.

ICMA Retirement Plan

The Public Safety Director, City Administrator, and City Community Development Director are covered under the nationwide retirement plan offered by the International City Manager's Association (ICMA). Contributions required by the employer are 12% of the annual salary for the Public Safety Director, \$2,000 per year for the City Community Development Director, and an annual salary determined on a calendar year basis for the City Administrator - \$9,500 for calendar year 2013 and \$10,700 for calendar year 2014.

The City's responsibility is limited to payment of contributions required by established rates. The employer's contribution paid by the City for the year ended June 30, 2014 totaled \$22,248.

8. Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their eligible dependents. There are 66 active members and one retired member in the plan. Eligible retirees receive health care coverage through the same plans that are available for active employees. Participants must be age 55 or older at retirement. Benefits terminate upon attaining Medicare eligibility.

Contributions are required for both retiree and dependent coverage. The retiree contributions are based on and equal to the historical full cost of active members. Retiree expenses are then offset by retiree contributions.

The medical/prescription drug coverage is provided through a self-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation – The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

8. Other Postemployment Benefits (OPEB) – (Continued)

The following table shows the components of the City’s annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the plan and changes in the City’s net OPEB obligation:

Annual required contribution	\$ 18,851
Interest on net OPEB obligation	2,606
Adjustment to annual required contribution	<u>(3,555)</u>
Annual OPEB cost	17,902
Contributions made	<u>-</u>
Increase in net OPEB obligation	17,902
Net OPEB obligation - beginning of year	<u>57,910</u>
Net OPEB obligation - end of year	<u>\$ 75,812</u>

For calculation of the net OPEB obligation, the actuary has set the transition date as July 1, 2012. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

The required contribution is based on projected pay-as-you-go financing. Retiree and active members receiving benefits have required contributions of \$452.94 per month for single health coverage and \$1,155.52 per month for retiree and spouse coverage.

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 13,231	0.00%	\$ 40,431
2013	\$ 18,188	3.90%	\$ 57,910
2014	\$ 17,902	0.00%	\$ 75,812

Funded Status and Funding Progress – As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was approximately \$124,528, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$124,528. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,656,000 and the ratio of the UAAL to covered payroll was 3.41%. As of June 30, 2014, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

8. Other Postemployment Benefits (OPEB) – (Continued)

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

*Retirement age for active employees* – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 60, or at the first subsequent year in which the member would qualify for benefits.

*Marital status* – Marital status of members at the calculation date was assumed to continue throughout retirement.

*Mortality* – Life expectancies were based on the 2004 United States Life Tables.

*Turnover* – Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

*Healthcare cost trend rate* – A rate of 7 percent initially, reduced to an ultimate rate of 5.0 percent after three years, was used for the expected rate of increase in healthcare insurance premiums.

*Health insurance premiums* – 2013 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

9. Commitments

The City has entered into construction contracts totaling approximately \$23,016,870 for street, water, sewer, and storm water utility improvement projects. As of June 30, 2014, costs of approximately \$17,069,266 have been incurred on the projects. The remaining \$5,947,604 will be paid as work on the projects progresses.

The City has entered into an agreement for the management of the airport for the year ending June 30, 2014 for \$4,895 per month.

The City has entered into a Facility Management Agreement with Kinseth Hotel Corporation (Kinseth) to manage the King's Pointe Waterpark Resort through June 30, 2014, with annual one-year renewals thereafter. A base management fee will be paid at \$4,000 per month for five months of operation (July through September and May through June of the following calendar year).

The City has also entered into a Management Agreement with Kinseth to manage the King's Pointe Resort through June 30, 2014, with annual renewals thereafter. A management fee will be paid at three percent of each month's gross revenues and twelve percent of the improvement in net available cash at each fiscal year end compared to the prior fiscal year end.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

9. Commitments – (Continued)

The City entered into a Management Agreement with Kinseth Hotel Corporation (Kinseth) to manage the Sunrise Pointe golf course through June 30, 2014, with annual renewals thereafter. A base management fee will be paid at \$1,750 per month.

10. Risk Management

The City 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.

Effective August 1, 1983, the City adopted a plan of self-insurance for employee’s health benefits. Deposits are made to the Employee Health Benefit Fund, an internal service fund of the City, to pay employee claims. An excess coverage insurance policy covers individual claims over \$25,000, or total group claims exceeding 125% of expected claims.

An actuarial study of the adequacy of reserves, rates, and financial condition of the Employee Health Benefit Fund was performed for the plan year January 1, 2013 to December 31, 2013. The study included census of covered members as of December 31, 2013, a summary of aggregate and specific excess loss reinsurance coverage, monthly claim expense information, a summary of revenue and expenses and review of the plan document summary description.

Following is a financial analysis of the plan for the year ended December 31, 2013. Included in this analysis is an estimate of the amount needed at the end of the plan year for incurred but not paid claims.

Net position - January 1, 2013	\$ 873,135
Contributions received	738,182
Interest earned	<u>1,913</u>
	<u>1,613,230</u>
Claims paid	<u>320,000</u>
Aggregate stop-loss premiums and other charges	<u>306,364</u>
	<u>626,364</u>
Net position - December 31, 2013	986,866
Reserved for estimated incurred but unpaid claims	<u>48,000</u>
	<u>\$ 938,866</u>

11. Deferred Compensation

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

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

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

12. Conduit Debt Obligations

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

A summary of conduit debt obligations is as follows:

	Originally Issued	Date of Issue	Balance Outstanding June 30, 2014
Higher Education Facilities Revenue Bonds	\$ 7,630,000	5/24/2000	\$ 2,045,000
Elderly Housing Revenue Bonds	4,565,000	6/1/2007	3,795,000
Elderly Housing Revenue Bonds	4,950,000	10/17/2011	4,385,000

13. Litigation

The City is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. City officials believe the outcome of these matters will not have a material adverse effect on the City's financial statements.

14. Deficit Fund Balances

The Special Revenue – Tax Increment Financing fund had a deficit balance of \$308,622 at June 30, 2014. The deficit fund balance is a result of unpaid taxes in the TIF area and capital expenses in the new TIF area.

15. Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's proportionate share of the employee pension plan.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STORM LAKE  
 BUDGETARY COMPARISON SCHEDULE OF  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES –  
 BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2014

	Governmental	Proprietary	Total	Budgeted Amounts		Final
	Funds	Funds		Original	Final	To
	Actual	Actual				Total
						Variance
Receipts:						
Property tax	\$ 3,758,297	\$ -	\$ 3,758,297	\$ 3,752,758	\$ 3,752,758	\$ 5,539
Tax increment financing	684,615	-	684,615	678,466	678,466	6,149
Other city tax	1,835,265	-	1,835,265	1,561,624	1,911,836	(76,571)
Licenses and permits	237,314	-	237,314	164,900	261,275	(23,961)
Use of money and property	152,512	21,913	174,425	29,913	19,513	154,912
Intergovernmental	1,775,329	6,955,455	8,730,784	9,329,448	12,888,013	(4,157,229)
Charges for service	1,786,126	10,158,473	11,944,599	12,022,631	11,842,655	101,944
Miscellaneous	420,219	305,062	725,281	315,000	1,145,550	(420,269)
Total receipts	<u>10,649,677</u>	<u>17,440,903</u>	<u>28,090,580</u>	<u>27,854,740</u>	<u>32,500,066</u>	<u>(4,409,486)</u>
Disbursements:						
Public safety	2,501,630	-	2,501,630	2,772,153	2,846,153	344,523
Public works	1,275,300	-	1,275,300	1,008,934	1,296,934	21,634
Health and social services	3,326	-	3,326	5,500	5,500	2,174
Culture and recreation	1,590,012	-	1,590,012	1,650,806	1,734,806	144,794
Community and economic development	739,558	-	739,558	537,075	669,075	(70,483)
General government	414,776	-	414,776	401,269	439,769	24,993
Debt service	1,962,611	-	1,962,611	1,941,398	1,941,998	(20,613)
Capital projects	1,148,061	-	1,148,061	2,964,776	2,964,776	1,816,715
Business type activities	-	21,987,884	21,987,884	20,354,033	25,758,033	3,770,149
Total disbursements	<u>9,635,274</u>	<u>21,987,884</u>	<u>31,623,158</u>	<u>31,635,944</u>	<u>37,657,044</u>	<u>6,033,886</u>
Excess (deficiency) of receipts over disbursements	1,014,403	(4,546,981)	(3,532,578)	(3,781,204)	(5,156,978)	1,624,400
Other financing sources, net	<u>62,521</u>	<u>(1,085,574)</u>	<u>(1,023,053)</u>	<u>2,331,974</u>	<u>5,368,121</u>	<u>(6,391,174)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	1,076,924	(5,632,555)	(4,555,631)	(1,449,230)	211,143	(4,766,774)
Balance, beginning of year	<u>3,452,215</u>	<u>15,248,413</u>	<u>18,700,628</u>	<u>18,826,120</u>	<u>18,826,120</u>	<u>(125,492)</u>
Balance, end of year	<u>\$ 4,529,139</u>	<u>\$ 9,615,858</u>	<u>\$ 14,144,997</u>	<u>\$ 17,376,890</u>	<u>\$ 19,037,263</u>	<u>\$ (4,892,266)</u>

See accompanying independent auditor's report.

CITY OF STORM LAKE  
BUDGET TO GAAP RECONCILIATION  
YEAR ENDED JUNE 30, 2014

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 10,649,677	\$ (224,240)	\$ 10,425,437
Expenditures	9,635,274	13,412	9,648,686
Net	1,014,403	(237,652)	776,751
Other financing sources, net	62,521	-	62,521
Beginning fund balances	3,452,215	4,253,430	7,705,645
Ending fund balances	\$ 4,529,139	\$ 4,015,778	\$ 8,544,917

	Proprietary Funds		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 17,440,903	\$ (6,500,535)	\$ 10,940,368
Expenditures	21,987,884	(10,809,039)	11,178,845
Net	(4,546,981)	4,308,504	(238,477)
Other financing sources, net	(1,085,574)	10,030,430	8,944,856
Beginning net position	15,248,413	22,091,064	37,339,477
Ending net position	\$ 9,615,858	\$ 36,429,998	\$ 46,045,856

See accompanying independent auditor's report.

CITY OF STORM LAKE  
NOTES TO REQUIRED SUPPLEMENTARY  
INFORMATION - BUDGETARY REPORTING  
JUNE 30, 2014

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. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine 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 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 ended June 30, 2014 the budget was amended once which increased budgeted disbursements by \$6,021,100. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements in the community and economic development and debt service functions exceeded the amount budgeted.

CITY OF STORM LAKE  
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets  (a)	Actuarial Accrued Liability (AAL)  (b)	Unfunded AAL (UAAL)  (b-a)	Funded Ratio  (a/b)	Covered Payroll  (c)	UAAL as a Percentage of Covered Payroll  ((b-a)/c)
2010	July 1, 2009	-	\$ 85,000	\$ 85,000	0.00%	\$2,250,000	3.80%
2011	July 1, 2009	-	\$ 85,000	\$ 85,000	0.00%	\$2,863,000	3.00%
2012	July 1, 2009	-	\$ 85,000	\$ 85,000	0.00%	\$3,067,000	2.77%
2013	July 1, 2012	-	\$ 124,528	\$ 124,528	0.00%	\$2,568,545	4.85%
2014	July 1, 2012	-	\$ 124,528	\$ 124,528	0.00%	\$3,655,802	3.41%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress.

SUPPLEMENTARY INFORMATION

CITY OF STORM LAKE  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2014

Schedule 1

<u>ASSETS</u>	Special Revenue					Permanent	Total
	Tort Insurance	Crime Prevention	Library	Expendable Gift	Law Enforcement	Emma Meyers Trust	
Cash, cash equivalents and pooled investments	\$ 158,549	\$ 27,659	\$ 112,963	\$ 2,983	\$ 94,854	\$ 2,714	\$ 399,722
Receivables							
Property tax:							
Delinquent	238	-	-	-	-	-	238
Succeeding year	70,000	-	-	-	-	-	70,000
Accrued Interest	-	-	7	-	-	-	7
Prepaid expenses	78,598	-	-	-	-	-	78,598
Total assets	\$ 307,385	\$ 27,659	\$ 112,970	\$ 2,983	\$ 94,854	\$ 2,714	\$ 548,565
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES</u> <u>AND FUND BALANCES</u>							
Liabilities:							
Accounts payable	\$ -	\$ 98	\$ 15	\$ -	\$ 1,443	\$ -	\$ 1,556
Deferred inflows of resources:							
Unavailable revenues:							
Succeeding year property tax	70,000	-	-	-	-	-	70,000
Other	238	-	-	-	-	-	238
Total deferred inflows of resources	70,238	-	-	-	-	-	70,238
Fund balances:							
Nonspendable:							
Prepaid expenses	78,598	-	-	-	-	-	78,598
Permanent	-	-	-	-	-	2,714	2,714
Restricted	158,549	27,561	-	2,983	-	-	189,093
Assigned	-	-	112,955	-	93,411	-	206,366
Total fund balances	237,147	27,561	112,955	2,983	93,411	2,714	476,771
Total liabilities, deferred inflows of resources and fund balances	\$ 307,385	\$ 27,659	\$ 112,970	\$ 2,983	\$ 94,854	\$ 2,714	\$ 548,565

See accompanying independent auditor's report.

CITY OF STORM LAKE  
 COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2014

Schedule 2

	Special Revenue					Permanent	Total
	Tort Insurance	Crime Prevention	Library	Expendable Gift	Law Enforcement	Emma Meyers Trust	
Revenues:							
Property tax	\$ 67,520	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 67,520
Other city tax	2,643	-	-	-	-	-	2,643
Use of money and property	505	56	235	-	171	-	967
Intergovernmental	-	-	6,658	-	-	-	6,658
Charges for services	-	-	468	-	-	-	468
Miscellaneous	9,184	5,452	3,495	2,880	29,663	-	50,674
Total revenues	<u>79,852</u>	<u>5,508</u>	<u>10,856</u>	<u>2,880</u>	<u>29,834</u>	<u>-</u>	<u>128,930</u>
Expenditures:							
Operating:							
Public Safety	-	2,369	-	-	85,572	-	87,941
Culture and recreation	-	-	1,500	-	-	-	1,500
Community and economic development	-	-	-	5,900	-	-	5,900
General government	114,379	-	-	-	-	-	114,379
Total expenditures	<u>114,379</u>	<u>2,369</u>	<u>1,500</u>	<u>5,900</u>	<u>85,572</u>	<u>-</u>	<u>209,720</u>
Net change in fund balances	(34,527)	3,139	9,356	(3,020)	(55,738)	-	(80,790)
Fund balances beginning of year	<u>271,674</u>	<u>24,422</u>	<u>103,599</u>	<u>6,003</u>	<u>149,149</u>	<u>2,714</u>	<u>557,561</u>
Fund balances end of year	<u>\$ 237,147</u>	<u>\$ 27,561</u>	<u>\$ 112,955</u>	<u>\$ 2,983</u>	<u>\$ 93,411</u>	<u>\$ 2,714</u>	<u>\$ 476,771</u>

See accompanying independent auditor's report.

CITY OF STORM LAKE  
SCHEDULE OF AND CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUNDS  
YEAR ENDED JUNE 30, 2014

Schedule 3

Lake Improvements Commission				
	Balance			Balance
	June 30, 2013	Additions	Deletions	June 30, 2014
Assets				
Cash, cash equivalents				
and pooled investments	\$ 1,668,892	\$ 857,476	\$ 1,526,880	\$ 999,488
Interest receivable	863	7,415	6,967	1,311
Due from other governments	88,511	61,341	88,511	61,341
Total assets	\$ 1,758,266	\$ 926,232	\$ 1,622,358	\$ 1,062,140
Liabilities:				
Accounts payable	\$ 172,803	\$ 27,669	\$ 172,803	\$ 27,669
Due to other governments	1,585,463	898,563	1,449,555	1,034,471
Total liabilities	\$ 1,758,266	\$ 926,232	\$ 1,622,358	\$ 1,062,140

Drainage				
	Balance			Balance
	June 30, 2013	Additions	Deletions	June 30, 2014
Assets				
Cash, cash equivalents				
and pooled investments	\$ (81,433)	\$ 62,012	\$ -	\$ (19,421)
Due from other governments	81,433	19,421	81,433	19,421
Total assets	\$ -	\$ 81,433	\$ 81,433	\$ -
Liabilities:				
Accounts payable	\$ -	\$ 81,433	\$ 81,433	\$ -
Total liabilities	\$ -	\$ 81,433	\$ 81,433	\$ -

Gingerbread House				
	Balance			Balance
	June 30, 2013	Additions	Deletions	June 30, 2014
Assets				
Cash, cash equivalents				
and pooled investments	\$ 19,363	\$ -	\$ -	\$ 19,363
Total assets	\$ 19,363	\$ -	\$ -	\$ 19,363
Liabilities:				
Accounts payable	\$ 19,363	\$ -	\$ -	\$ 19,363
Total liabilities	\$ 19,363	\$ -	\$ -	\$ 19,363

See accompanying independent auditor's report.

CITY OF STORM LAKE  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION –  
 ALL GOVERNMENTAL FUNDS  
 FOR THE LAST TEN YEARS

Schedule 4

	Modified Accrual Basis									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues:										
Property tax	\$ 3,758,297	\$ 3,552,240	\$ 3,260,585	\$ 3,228,638	\$ 2,927,869	\$ 2,827,598	\$ 2,799,837	\$ 2,669,623	\$ 2,625,565	\$ 2,369,578
Tax increment financing	684,615	634,493	516,655	510,733	542,506	281,009	129,377	83,873	84,850	36,460
Other city tax	1,940,922	1,593,392	1,812,822	1,496,467	1,199,479	1,337,504	1,209,525	1,352,178	1,132,590	1,076,883
Licenses and permits	238,331	164,956	217,743	199,614	177,904	340,468	383,606	759,810	693,381	298,777
Use of money and property	167,886	160,439	152,469	65,105	271,658	1,171,521	1,150,540	487,579	430,791	472,177
Intergovernmental	1,486,862	1,541,429	3,249,872	2,338,053	1,260,382	163,747	256,198	182,624	109,485	100,288
Charges for service	1,747,839	1,338,590	1,206,912	1,342,382	1,171,084	2,502,482	1,070,861	2,563,765	1,535,489	2,059,008
Special assessments	-	-	-	-	-	-	-	-	-	1,343
Miscellaneous	400,685	560,484	1,014,903	369,543	472,114	663,245	443,993	628,511	866,338	563,315
<b>Total</b>	<b>\$ 10,425,437</b>	<b>\$ 9,546,023</b>	<b>\$ 11,431,961</b>	<b>\$ 9,550,535</b>	<b>\$ 8,022,996</b>	<b>\$ 9,287,574</b>	<b>\$ 7,443,937</b>	<b>\$ 8,727,963</b>	<b>\$ 7,478,489</b>	<b>\$ 6,977,829</b>
Expenditures:										
Operating:										
Public safety	\$ 2,471,024	\$ 2,399,511	\$ 2,356,275	\$ 2,301,118	\$ 2,130,274	\$ 2,092,319	\$ 1,996,699	\$ 1,731,813	\$ 1,747,843	\$ 1,741,482
Public works	1,263,310	1,367,553	1,284,121	1,237,937	1,043,094	1,029,727	1,007,552	871,683	921,209	947,440
Health and social services	3,719	3,504	4,276	5,464	5,984	9,796	14,221	12,850	10,700	9,034
Culture and recreation	1,633,841	1,465,544	1,466,694	1,594,837	1,482,908	1,444,437	1,494,431	715,125	837,193	829,871
Community and economic development	718,510	533,415	572,487	463,340	622,267	1,904,128	348,970	351,232	336,781	365,144
General government	407,404	438,491	401,761	338,549	366,308	386,912	338,702	287,970	273,172	278,934
Debt service	2,027,158	1,961,769	1,942,588	1,764,129	1,376,234	1,342,923	1,293,896	1,207,354	570,555	361,282
Capital projects	1,123,720	1,420,351	5,044,341	2,685,676	1,797,161	1,409,263	2,819,570	7,596,287	3,807,559	2,150,456
<b>Total</b>	<b>\$ 9,648,686</b>	<b>\$ 9,590,138</b>	<b>\$ 13,072,543</b>	<b>\$ 10,391,050</b>	<b>\$ 8,824,230</b>	<b>\$ 9,619,505</b>	<b>\$ 9,314,041</b>	<b>\$ 12,774,314</b>	<b>\$ 8,505,012</b>	<b>\$ 6,683,643</b>

CITY OF STORM LAKE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2014

Schedule 5

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Agency Pass-Through Number</u>	<u>Program Expenditures</u>
Direct:			
U.S. Department of Transportation:			
Federal Aviation Administration			
Airport Improvement Program	20.106	3-19-0088-009-2014	\$ <u>49,335</u>
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-U-7422(611)--70-11	31,217
Highway Planning and Construction	20.205	STP-U-7422(613)--70-11	14,037
Highway Planning and Construction	20.205	STP-U-7422(614)--70-11	<u>17,743</u>
			<u>62,997</u>
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's			
Program and Non-Entitlement Grants in Hawaii	14.228	10-HSG-071	73,671
	14.228	12-CF-004	307,887
	14.228	13-CF-004	88,479
	14.228	13-DTR-012	<u>27,980</u>
			<u>498,017</u>
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency			
Management Division:			
Hazard Mitigation Grant	97.039	HMGP-DR-1763-0165-01	<u>7,230,075</u>
Total			<u>\$7,840,424</u>

Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Storm Lake and is presented on the accrual or modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

# HUNZELMAN, PUTZIER & Co., PLC

CERTIFIED PUBLIC ACCOUNTANTS

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## 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  
Storm Lake, Iowa

We have audited 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, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Storm Lake, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 31, 2015.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### City of Storm Lake's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hummelman, Putzler & Co., PLC

January 31, 2015

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Independent Auditor's Report on Compliance  
for Each Major Federal Program, and on Internal Control over Compliance  
Required by OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council  
City of Storm Lake  
Storm Lake, Iowa 50588

Report on Compliance for Each Major Federal Program

We have audited City of Storm Lake, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. City of Storm Lake, Iowa's major federal programs are identified in Part I of the accompanying Schedule of Findings.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for City of Storm Lake's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Storm Lake, Iowa's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on City of Storm Lake's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Storm Lake, Iowa complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

## Report on Internal Control Over Compliance

Management of City of Storm Lake, Iowa is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered City of Storm Lake, Iowa's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Storm Lake, Iowa's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Hungelman, Putzier & Co., PLC*

January 31, 2015

CITY OF STORM LAKE  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2014

Part I: Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statements.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were as follows:
  - CFDA Number 14.228 Community Development Block Grants/State's Program
  - CFDA Number 97.039 Hazard Mitigation Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Storm Lake did not qualify as a low-risk auditee.

CITY OF STORM LAKE  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2014

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Financial Reporting – We noted the City does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with the accrual basis of accounting. As is inherent in many organizations of this size, the City has management and employees who, while knowledgeable and skillful, do not have the time to maintain the current knowledge and expertise to fully apply the accrual basis of accounting in preparing the financial statements and the related disclosures.

Recommendation – The City should consider obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses.

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

Conclusion – Response accepted.

- (B) Bank Reconciliations – Although monthly bank reconciliations were prepared, variances existed between the bank balance and the general ledger balance. The reconciliations were not reviewed by an independent person.

Recommendation – To improve financial accountability and control, monthly bank reconciliations should be performed and variances between book and bank balances should be investigated and resolved timely. In addition, the reconciliation should be reviewed by an independent person and the review should be documented by the signature or initials of the reviewer and the date of the review.

Response – The City will implement procedures to document that the bank reconciliations are reviewed by another staff member and that this review is documented by signature and date of the reviewer.

Conclusion – Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

Part III: Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2014, exceeded the amounts budgeted in the community and economic development and debt service functions.

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

Response – The budget will be amended earlier in the year, when applicable, to ensure all expenses are captured in the future.

Conclusion – Response accepted.

CITY OF STORM LAKE  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2014

Part III: Other Findings Related to Required Statutory Reporting: (Continued)

- (2) Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- (3) Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (5) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (6) Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy.
- (7) Revenue Notes – No instances of non-compliance with the water and sewer revenue note resolutions were noted, however the City’s storm water revenue bond resolution requires the City to establish a reserve fund of \$77,625 until the bonds are fully paid. The reserve fund has not yet been established.

Recommendation – The City should comply with the storm water revenue bond requirements and establish the reserve fund.

Response – The \$77,625 was set aside in the capital project account for the reserve but it was not transferred to the actual reserve account. This has been completed and the City will comply with the Reserve requirements in the future.

Conclusion – Response accepted.

- (8) Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1.
- (9) Financial Condition – The Special Revenue Fund – Tax Increment Financing had a deficit balance of \$308,622 as of June 30, 2014.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial condition.

Response – The City will continue to look at ways to make sure the expenses and revenues are received in the same fiscal year in order to avoid deficits in fund balance. Sometimes it is beyond our control but every effort will be made to have positive fund balances at the end of the fiscal year.

Conclusion – Response accepted.