



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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**NEWS RELEASE**

FOR RELEASE

March 2, 2007

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Wall Lake, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2006, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$2,926,470 for the year ended June 30, 2006. The receipts included \$130,818 in property tax, \$45,750 from tax increment financing collections, \$1,125,162 from charges for service, \$117,538 from operating grants, contributions and restricted interest, \$326,238 from capital grants, contributions and restricted interest, \$10,691 from local option sales tax, \$4,401 from unrestricted interest on investments, \$1,149,600 from bond, note and loan proceeds and \$16,272 from other general receipts.

Disbursements for the year totaled \$3,205,441, and included \$768,759 for capital projects, \$265,454 for culture and recreation and \$132,564 for public works. Also, disbursements for business type activities totaled \$1,820,082.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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**CITY OF WALL LAKE**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2006**

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**City of Wall Lake**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2006)</b>		
Edwin Reiter	Mayor	Jan 2006
Francis Riedell	Council Member	Jan 2006
Bob Coil	Council Member	Jan 2006
Marvin Arnold	Council Member	Jan 2008
Darrin Boger	Council Member	Jan 2008
Victor Johnson	Council Member	Jan 2008
<b>(After January 2006)</b>		
Edwin Reiter	Mayor	Jan 2010
Marvin Arnold	Council Member	(Resigned)
John Marrow (Appointed)	Council Member	Nov 2007
Darrin Boger	Council Member	Jan 2008
Victor Johnson	Council Member	Jan 2008
Ray Boeckman	Council Member	Jan 2010
Daryl Potthoff	Council Member	Jan 2010
Tom Schroeder	City Manager	Indefinite
Sharon Faber	Clerk/Treasurer	Indefinite
Warren Bush	Attorney	Indefinite

**City of Wall Lake**



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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Wall Lake, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

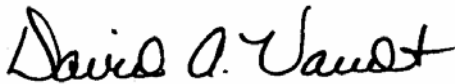
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Wall Lake as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 9, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated October 23, 2006 on our consideration of the City of Wall 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 internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Wall Lake's basic financial statements. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 23, 2006



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

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The City of Wall 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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

### **2006 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities decreased by approximately \$283,000 due to disbursements for the new community center.
- The cash basis net assets of the City's business type activities increased by approximately \$4,000.

### **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 Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

### **BASIS OF ACCOUNTING**

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

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

### *Government-wide Financial Statement*

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

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

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

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

### *Fund Financial Statements*

The City has three kinds of funds:

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

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

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

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

3) The Fiduciary Fund accounts for resources held for others. The Fiduciary Fund consists of an Agency, Cafeteria Plan Fund.

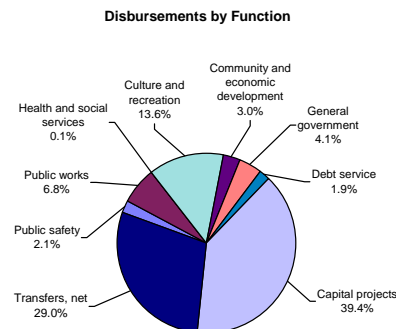
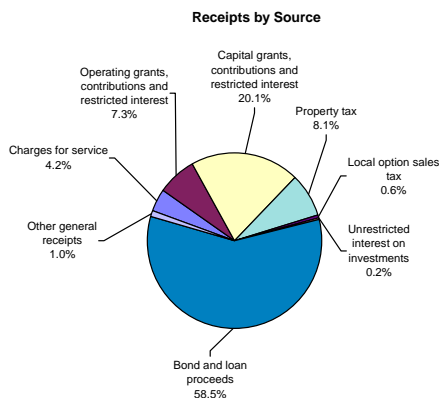
The required financial statement for the Fiduciary Fund is a statement of changes in fiduciary assets and liabilities.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$418,711 to \$135,977. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		Year ended June 30, 2006
Receipts:		
Program receipts:		
Charges for service	\$	68
Operating grants, contributions and restricted interest		118
Capital grants, contributions and restricted interest		326
General receipts:		
Property tax		131
Tax increment financing		46
Local option sales tax		10
Unrestricted interest on investments		3
Bond and loan proceeds		950
Other general receipts		16
Total receipts		<u>1,668</u>
Disbursements and transfers:		
Public safety		40
Public works		133
Health and social services		2
Culture and recreation		265
Community and economic development		58
General government		80
Debt service		38
Capital projects		769
Transfers, net		566
Total disbursements and transfers		<u>1,951</u>
Increase in cash basis net assets		(283)
Cash basis net assets beginning of year		419
Cash basis net assets end of year	\$	<u>136</u>



Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	Year ended June 30, 2006
Receipts and transfers:	
Program receipts:	
Charges for service:	
Water	\$ 110
Sewer	47
Electric	579
Gas	255
Landfill	66
General receipts:	
Unrestricted interest on investments	1
Note proceeds	200
Transfers, net	566
Total receipts and transfers	<u>1,824</u>
Disbursements:	
Water	91
Sewer	140
Electric	483
Gas	1,041
Landfill	65
Total disbursements	<u>1,820</u>
Increase in cash basis net assets	4
Cash basis net assets beginning of year	<u>80</u>
Cash basis net assets end of year	<u>\$ 84</u>

Total business type activities cash basis net assets increased from a year ago, increasing from \$80,085 to \$83,848. The overall increase is not considered significant.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Wall Lake completed the year, its governmental funds reported a combined fund balance of \$135,977, a decrease of more than \$282,000 below last year's total of \$418,711. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$140,765 from the prior year to a year-end balance of \$39,921. This decrease is primarily due to the transfer of \$125,068 to the Capital Projects Fund for a community center project.
- The Debt Service Fund cash balance decreased by \$272 to a deficit balance of \$272 at the fiscal year end. This decrease was attributable to scheduled debt payments made in excess of property taxes and other sources of funds.
- The Capital Projects Fund cash balance decreased by \$128,703 to \$3,763 during the fiscal year due to the community center project. The decrease is due to the disbursement of grants and donations accumulated in the prior year.
- The Permanent Fund cash balance did not change, maintaining the balance of \$71,000 during and at the end of the fiscal year.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$63,216 to a year-end balance of \$173,044. This increase was due primarily to an increase in water collections.
- The Sewer Fund cash balance increased by \$35,528 to a year-end balance of \$50,707. The increase was due to an increase in sewer rental collections.
- The Electric Fund cash balance decreased by \$48,231 to a year-end balance of \$113,823. The decrease was due to the increased cost of purchased electricity and an increase in the subsidy paid to the General Fund.
- The Gas Fund cash balance decreased by \$48,419 to a year-end deficit balance of \$(247,664). The decrease was due to the early pay-off of a bank loan, a capital project for a gas line to a new business and the cost of purchased gas increasing faster than the rates charged to customers.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on March 13, 2006 and resulted in an increase in operating disbursements related to two functions of approximately \$870,000. Of this amount, \$100,000 was for construction costs relating to the community center, \$190,000 was for a refunding gas loan and the remaining amount was for water, sewer and gas capital projects. The City received bond proceeds to absorb these additional costs.

A comparison of budgeted revenues with actual amounts reveals the City did not budget for local option sales tax received in the other city tax category. In the use of money and property category, receipts were more than the budget by \$15,646, primarily due to rent of the community center. Intergovernmental receipts were \$44,927 more than the budget due to a Vision Iowa grant which was not budgeted. The charges for service budget was over-estimated by \$144,466 primarily due to the start of the bio-diesel plant being later than anticipated.

**DEBT ADMINISTRATION**

At June 30, 2006, the City had approximately \$1,754,453 in bonds and other long-term debt outstanding, compared to approximately \$961,017 last year. The chart below segregates the City’s debt into its component parts.

Outstanding Debt at Year-End		
	June 30,	
	2006	2005
General obligation bonds and notes	\$ 931,266	74,326
Revenue notes	588,900	455,000
Bank loans	234,287	431,691
Total	<u>\$1,754,453</u>	<u>961,017</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt is \$1,165,553, below its constitutional debt limit of approximately \$1,349,000.

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

The City of Wall Lake's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates and fees charged for various City activities. The City's FY 2007 assessed value has decreased \$106,739 from the FY 2006 level.

The FY 2007 budget contains total receipts of \$2,461,906 and disbursements of \$2,218,318. This budget is considerably higher than the FY 2006 budget which contained total receipts of \$1,807,786 and disbursements of \$2,653,148. The FY 2007 includes estimated added receipts and disbursements for the new bio-diesel plant gas and water usage. The City also plans to install water and sewer lines to a new residential development sometime in the fiscal year.

The FY 2007 levy is \$9.77281 per \$1,000 of taxable valuation, an increase from \$9.21696 per \$1,000 of taxable valuation in 2006. The debt service levy increased from \$1.11696 per \$1,000 of taxable valuation in FY 2006 to \$1.67281 per \$1,000 of taxable valuation in FY 2007 due to the addition of a new bond issue.

These parameters were taken into account when adopting the budget for FY 2007.

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

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sharon Faber, City Clerk, P.O. Box 37, Wall Lake, IA 51466.

## **Basic Financial Statements**

City of Wall Lake

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 40,057	38	-	-
Public works	132,564	-	73,000	-
Health and social services	2,500	2,074	-	-
Culture and recreation	265,454	43,884	44,450	-
Community and economic development	58,077	-	88	-
General government	79,568	22,399	-	-
Debt service	38,380	-	-	-
Capital projects	768,759	-	-	326,238
Total governmental activities	1,385,359	68,395	117,538	326,238
Business type activities:				
Water	91,573	109,441	-	-
Sewer	139,622	47,050	-	-
Electric	483,322	579,211	-	-
Gas	1,041,033	254,864	-	-
Landfill	64,532	66,201	-	-
Total business type activities	1,820,082	1,056,767	-	-
Total	\$ 3,205,441	1,125,162	117,538	326,238
<b>General Receipts:</b>				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Bond and note proceeds (net of \$20,400 discount)				
Bank loan proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Streets				
Urban renewal purposes				
Debt service				
Cemetery perpetual care				
Capital projects				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.



Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(40,019)	-	(40,019)
(59,564)	-	(59,564)
(426)	-	(426)
(177,120)	-	(177,120)
(57,989)	-	(57,989)
(57,169)	-	(57,169)
(38,380)	-	(38,380)
(442,521)	-	(442,521)
(873,188)	-	(873,188)
-	17,868	17,868
-	(92,572)	(92,572)
-	95,889	95,889
-	(786,169)	(786,169)
-	1,669	1,669
-	(763,315)	(763,315)
(873,188)	(763,315)	(1,636,503)
113,709	-	113,709
45,750	-	45,750
17,109	-	17,109
10,691	-	10,691
3,100	1,301	4,401
849,600	200,000	1,049,600
100,000	-	100,000
16,272	-	16,272
(565,777)	565,777	-
590,454	767,078	1,357,532
(282,734)	3,763	(278,971)
418,711	80,085	498,796
\$ 135,977	83,848	219,825
\$ 2,790	-	2,790
12,771	-	12,771
-	55,325	55,325
71,000	-	71,000
3,763	-	3,763
6,004	-	6,004
39,649	28,523	68,172
\$ 135,977	83,848	219,825

City of Wall Lake

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2006

	General	Debt Service	Capital Projects
Receipts:			
Property tax	\$ 113,709	17,109	-
Tax increment financing	-	-	-
Other city tax	10,691	-	-
Licenses and permits	2,074	-	-
Use of money and property	21,072	-	3,185
Intergovernmental	29,235	-	53,797
Charges for service	31,554	-	-
Miscellaneous	17,136	-	269,256
Total receipts	<u>225,471</u>	<u>17,109</u>	<u>326,238</u>
Disbursements:			
Operating:			
Public safety	40,057	-	-
Public works	63,554	-	-
Health and social services	2,500	-	-
Culture and recreation	246,228	-	-
Community and economic development	2,584	-	-
General government	79,568	-	-
Debt service	3,793	34,587	-
Capital projects	-	-	768,759
Total disbursements	<u>438,284</u>	<u>34,587</u>	<u>768,759</u>
Deficiency of receipts under disbursements	<u>(212,813)</u>	<u>(17,478)</u>	<u>(442,521)</u>
Other financing sources (uses):			
Bond proceeds (net of \$20,400 discount)	-	849,600	-
Bank loan proceeds	50,000	-	50,000
Sale of capital assets	7,116	-	-
Operating transfers in	140,000	17,206	263,818
Operating transfers out	(125,068)	(849,600)	-
Total other financing sources (uses)	<u>72,048</u>	<u>17,206</u>	<u>313,818</u>
Net change in cash balances	(140,765)	(272)	(128,703)
Cash balances beginning of year	180,686	-	132,466
Cash balances end of year	<u>\$ 39,921</u>	<u>(272)</u>	<u>3,763</u>
<b>Cash Basis Fund Balances</b>			
Reserved for permanent fund	\$ -	-	-
Unreserved:			
General fund	39,921	-	-
Special revenue funds	-	-	-
Debt service fund	-	(272)	-
Capital projects fund	-	-	3,763
Total cash basis fund balances	<u>\$ 39,921</u>	<u>(272)</u>	<u>3,763</u>

See notes to financial statements.

Permanent	Nonmajor	Total
-	-	130,818
-	45,750	45,750
-	-	10,691
-	-	2,074
-	88	24,345
-	71,800	154,832
-	7,213	38,767
-	18,017	304,409
-	142,868	711,686
-	-	40,057
-	69,010	132,564
-	-	2,500
-	19,226	265,454
-	55,493	58,077
-	-	79,568
-	-	38,380
-	-	768,759
-	143,729	1,385,359
-	(861)	(673,673)
-	-	849,600
-	-	100,000
-	-	7,116
-	5,073	426,097
-	(17,206)	(991,874)
-	(12,133)	390,939
-	(12,994)	(282,734)
71,000	34,559	418,711
71,000	21,565	135,977
71,000	-	71,000
-	-	39,921
-	21,565	21,565
-	-	(272)
-	-	3,763
71,000	21,565	135,977

City of Wall Lake

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2006

	Water	Sewer
Operating receipts:		
Charges for service	\$ 109,441	47,050
Operating disbursements:		
Business type activities	52,984	21,423
Excess of operating receipts over operating disbursements	56,457	25,627
Non-operating receipts (disbursements):		
Interest on investments	348	-
Revenue note proceeds	-	-
Capital asset acquisitions	(38,589)	(118,199)
Debt service	-	-
Net non-operating disbursements	(38,241)	(118,199)
Excess (deficiency) of receipts over (under) disbursements	18,216	(92,572)
Other financing sources (uses):		
Operating transfers in	45,000	128,100
Operating transfers out	-	-
Total other financing sources (uses)	45,000	128,100
Net change in cash balances	63,216	35,528
Cash balances beginning of year	109,828	15,179
Cash balances end of year	\$ 173,044	50,707
<b>Cash Basis Fund Balances</b>		
Reserved for debt service	\$ -	-
Unreserved	173,044	50,707
Total cash basis fund balances	\$ 173,044	50,707

See notes to financial statements.

Enterprise			
Electric	Gas	<u>Nonmajor</u> Landfill	Total
579,211	254,864	66,201	1,056,767
420,674	242,580	64,532	802,193
158,537	12,284	1,669	254,574
953	-	-	1,301
-	200,000	-	200,000
-	(546,811)	-	(703,599)
(62,648)	(251,642)	-	(314,290)
(61,695)	(598,453)	-	(816,588)
96,842	(586,169)	1,669	(562,014)
-	537,750	-	710,850
(145,073)	-	-	(145,073)
(145,073)	537,750	-	565,777
(48,231)	(48,419)	1,669	3,763
162,054	(199,245)	(7,731)	80,085
113,823	(247,664)	(6,062)	83,848
55,325	-	-	55,325
58,498	(247,664)	(6,062)	28,523
113,823	(247,664)	(6,062)	83,848

**Exhibit D**

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City of Wall Lake  
Statement of Changes in Fiduciary Assets and Liabilities  
Agency Fund

Year ended June 30, 2006

	<u>Cafeteria Plan</u>
Additions:	
Reimbursements from employees	\$ 17,060
Deductions:	
Non-program	<u>15,710</u>
Net change in cash balances	1,350
Cash balances beginning of year	<u>1,520</u>
Cash balances end of year	<u><u>\$ 2,870</u></u>

See notes to financial statements.

City of Wall Lake

Notes to Financial Statements

June 30, 2006

**(1) Summary of Significant Accounting Policies**

The City of Wall Lake is a political subdivision of the State of Iowa located in Sac County. It was first incorporated in 1880 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, electric and gas utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Sac County Assessor's Conference Board, Community Fire Department, Sac County Solid Waste Agency and Sac County Joint E911 Service Board.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

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

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

The Permanent Fund is used to account for resources legally restricted to the extent only the earnings, and not principal, may be used for purposes supporting the governmental programs.

The City reports the following major proprietary funds:

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

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

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

The Gas Fund accounts for the operation and maintenance of the City's gas system.

The City also reports an Agency Fund to account for its Cafeteria Plan for employees.



C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the culture and recreation, debt service, capital projects and business type activities functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2006 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.

**(3) Bonds, Notes and Bank Loans Payable**

Annual debt service requirements to maturity for general obligation bonds and notes and revenue notes are as follows:

Year Ending June 30,	General Obligation					
	Bonds and Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 113,832	44,605	109,948	21,804	223,780	66,409
2008	124,644	32,047	112,493	17,887	237,137	49,934
2009	125,517	27,269	96,459	13,807	221,976	41,076
2010	132,273	22,392	50,000	11,352	182,273	33,744
2011	70,000	17,422	50,000	9,428	120,000	26,850
2012 - 2016	365,000	45,725	170,000	15,195	535,000	60,920
Total	\$ 931,266	189,460	588,900	89,473	1,520,166	278,933

The resolutions providing for the issuance of the 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 a separate electric revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) An electric reserve account with a balance of \$50,000 shall be established. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.
- (d) All funds remaining in the electric account after the payment of all maintenance and operating expenses and required transfers shall be placed in an electric revenue surplus account within the Enterprise Funds. This account is restricted for the purpose of paying for any improvement, extension or repair to the system or for note and interest payments which the other accounts might be unable to make.
- (e) The City will provide for the collection of rates to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of the utility and to have a balance of net revenues equal to at least 125% of the principal and interest due on the bonds each fiscal year.

Bank Loans – On December 20, 2000, the City entered into a loan agreement with Bank Midwest totaling \$400,000, at 4.75% per annum interest, to be used for a gas capital project. During the year ended June 30, 2006, \$228,076, including interest, was paid under this agreement. The City used a portion of the general obligation corporate purpose and refunding bonds to pay this loan in full during the fiscal year ended June 30, 2006.

On August 1, 2001, the City entered into a loan agreement with Bank Midwest totaling \$29,270, at 5.50% per annum interest, to be used for the City's portion of a fire truck. During the year ended June 30, 2006, \$3,794, including interest, was paid under this agreement. The principal balance at June 30, 2006 was \$16,385.

On September 25, 2001, the City entered into a loan agreement with Bank Midwest totaling \$100,000, at 5.50% per annum interest, to be used for the City's portion of a fire truck. During the year ended June 30, 2006, \$12,855, including interest was paid under this agreement. The principal balance at June 30, 2006 was \$37,640. The Community Fire Association is making the payments on this bank loan.

On December 30, 2004, the City entered into a loan agreement with Bank Midwest totaling \$150,000, at 3.00% per annum interest, to be used for the community center. During the year ended June 30, 2006, \$17,381, including interest, was paid under this agreement. The principal balance at June 30, 2006 was \$130,262.

On December 12, 2005, the City entered into a loan agreement with Bank Midwest totaling \$100,000, at 7.00% per annum interest, to be used for the community center. During the year ended June 30, 2006, \$51,745, including interest, was paid under this agreement. The principal balance at June 30, 2006 was \$50,000.

**(4) Pension and Retirement Benefits**

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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2006 was \$9,840, equal to the required contributions for the year.

**(5) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Enterprise: Electric	<u>\$ 140,000</u>
Special Revenue: Tax Increment Financing	Enterprise: Electric	<u>5,073</u>
Debt Service	Special Revenue: Tax Increment Financing	<u>17,206</u>
Capital Projects	General	125,068
	Debt Service	<u>138,750</u>
		<u>263,818</u>
Enterprise: Water	Debt Service	45,000
Sewer	Debt Service	128,100
Gas	Debt Service	<u>537,750</u>
		<u>710,850</u>
Total		<u><u>\$ 1,136,947</u></u>

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

**(6) Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2006 were \$33,542.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and surety bond coverage. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(7) Deficit Balance**

The Debt Service Fund had a deficit balance of \$272 at June 30, 2006. The deficit balance was a result of debt payments in excess of property tax collections. The deficit will be eliminated with future tax collections.

The Enterprise, Gas Fund had a deficit balance of \$247,664 at June 30, 2006. The deficit balance was a result of operating expenses and prior year accumulated deficits in excess of gas service collections. The deficit will be eliminated with future gas service collections.

The Enterprise, Landfill Fund had a deficit balance of \$6,062 at June 30, 2006. The deficit balance was a result of prior year accumulated deficits. The deficit will be eliminated with future garbage and landfill service collections.

**(8) Development Agreements**

The City entered into development agreements on November 27, 2001 and October 30, 2002 to assist in constructing industrial facilities. The City agreed to rebate incremental taxes paid by the developers in exchange for public improvement infrastructure constructed by the developers as set forth in the urban renewal plan. The incremental taxes to be received by the City under Chapter 403.10 of the Code of Iowa from the developers will be rebated at a rate of 67% for a period of fifteen years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The City paid a total of \$11,031 in the fiscal year ended June 30, 2006 on the two development agreements.

**(9) Accounting Change**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and a fund financial statement which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

Implementation of these standards had no effect on the beginning balances of the City.

**City of Wall Lake**

**Required Supplementary Information**

City of Wall 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, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 130,818	-
Tax increment financing	45,750	-
Other city tax	10,691	-
Licenses and permits	2,074	-
Use of money and property	24,345	1,301
Intergovernmental	154,832	-
Charges for service	38,767	1,056,767
Miscellaneous	304,409	-
Total receipts	711,686	1,058,068
Disbursements:		
Public safety	40,057	-
Public works	132,564	-
Health and social services	2,500	-
Culture and recreation	265,454	-
Community and economic development	58,077	-
General government	79,568	-
Debt service	38,380	-
Capital projects	768,759	-
Business type activities	-	1,820,082
Total disbursements	1,385,359	1,820,082
Excess (deficiency) of receipts over (under) disbursements	(673,673)	(762,014)
Other financing sources, net	390,939	765,777
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(282,734)	3,763
Balances beginning of year	418,711	80,085
Balances end of year	\$ 135,977	83,848

See accompanying independent auditor's report.



Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
130,818	130,881	130,881	(63)
45,750	45,000	45,000	750
10,691	-	-	10,691
2,074	2,000	2,000	74
25,646	10,000	10,000	15,646
154,832	109,905	109,905	44,927
1,095,534	1,240,000	1,240,000	(144,466)
304,409	270,000	270,000	34,409
<u>1,769,754</u>	<u>1,807,786</u>	<u>1,807,786</u>	<u>(38,032)</u>
40,057	61,000	61,000	20,943
132,564	176,405	176,405	43,841
2,500	4,000	4,000	1,500
265,454	115,556	115,556	(149,898)
58,077	60,000	160,000	101,923
79,568	86,600	86,600	7,032
38,380	34,587	34,587	(3,793)
768,759	250,000	250,000	(518,759)
1,820,082	995,000	1,765,000	(55,082)
<u>3,205,441</u>	<u>1,783,148</u>	<u>2,653,148</u>	<u>(552,293)</u>
(1,435,687)	24,638	(845,362)	(590,325)
<u>1,156,716</u>	-	870,000	286,716
(278,971)	24,638	24,638	(303,609)
498,796	387,863	387,863	110,933
<u>219,825</u>	<u>412,501</u>	<u>412,501</u>	<u>(192,676)</u>

City of Wall Lake

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$870,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the culture and recreation, debt service, capital projects and business type activities functions.

**Other Supplementary Information**

**City of Wall Lake**

## City of Wall Lake

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2006

	Special Revenue			Total
	Road Use Tax	Tax	Wall Lake	
		Increment Financing	Wellness Room	
Receipts:				
Tax increment financing	\$ -	45,750	-	45,750
Use of money and property	-	88	-	88
Intergovernmental	71,800	-	-	71,800
Charges for service	-	-	7,213	7,213
Miscellaneous	-	-	18,017	18,017
Total receipts	<u>71,800</u>	<u>45,838</u>	<u>25,230</u>	<u>142,868</u>
Disbursements:				
Operating:				
Public works	69,010	-	-	69,010
Culture and recreation	-	-	19,226	19,226
Community and economic development:	-	55,493	-	55,493
Total disbursements	<u>69,010</u>	<u>55,493</u>	<u>19,226</u>	<u>143,729</u>
Excess (deficiency) of receipts over (under) disbursements	<u>2,790</u>	<u>(9,655)</u>	<u>6,004</u>	<u>(861)</u>
Other financing sources (uses):				
Operating transfers in	-	5,073	-	5,073
Operating transfers out	-	(17,206)	-	(17,206)
Total other financing sources (uses)	<u>-</u>	<u>(12,133)</u>	<u>-</u>	<u>(12,133)</u>
Net change in cash balances	2,790	(21,788)	6,004	(12,994)
Cash balances beginning of year	-	34,559	-	34,559
Cash balances end of year	<u>\$ 2,790</u>	<u>12,771</u>	<u>6,004</u>	<u>21,565</u>
<b>Cash Basis Fund Balances</b>				
Unreserved:				
Special revenue funds	<u>\$ 2,790</u>	<u>12,771</u>	<u>6,004</u>	<u>21,565</u>

See accompanying independent auditor's report.

City of Wall Lake  
 Schedule of Indebtedness  
 Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Street improvement notes	Jun 28, 2000	5.75%	\$ 130,000
Corporate purpose and refunding bonds	Mar 1, 2006	3.50-4.25	870,000
Total			
Revenue notes:			
Electric wind generator	Jan 1, 2004	4.95-5.15%	\$ 500,000
Gas	Mar 1, 2006	3.85	200,000
Total			
Bank loans:			
Gas	Dec 20, 2000	4.75%	\$ 400,000
Fire truck	Aug 1, 2001	5.50	29,270
Fire truck	Sep 25, 2001	5.50	100,000
Community center	Dec 30, 2004	3.00	150,000
Community center	Dec 12, 2005	7.00	100,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
74,326	-	13,060	61,266	4,146
-	870,000	-	870,000	-
<u>\$ 74,326</u>	<u>870,000</u>	<u>13,060</u>	<u>931,266</u>	<u>4,146</u>
455,000	-	45,000	410,000	17,248
-	200,000	21,100	178,900	2,465
<u>\$ 455,000</u>	<u>200,000</u>	<u>66,100</u>	<u>588,900</u>	<u>19,713</u>
221,249	-	221,249	-	6,828
19,162	-	2,777	16,385	1,016
47,761	-	10,121	37,640	2,734
143,519	-	13,257	130,262	4,124
-	100,000	50,000	50,000	1,745
<u>\$ 431,691</u>	<u>100,000</u>	<u>297,404</u>	<u>234,287</u>	<u>16,447</u>

City of Wall Lake  
 Bond and Note Maturities  
 June 30, 2006

Year Ending June 30,	General Obligation Bonds and Notes				
	Street Improvement Notes		Corporate Purpose and Refunding Bonds		Total
	Issued Jun 28, 2000		Issued Mar 1, 2006		
	Interest Rates	Amount	Interest Rates	Amount	
2007	5.75%	\$ 13,832	3.50%	\$ 100,000	
2008	5.75	14,644	3.55	110,000	124,644
2009	5.75	15,517	3.60	110,000	125,517
2010	5.75	17,273	3.65	115,000	132,273
2011		-	3.75	70,000	70,000
2012		-	3.85	70,000	70,000
2013		-	3.95	70,000	70,000
2014		-	4.05	75,000	75,000
2015		-	4.15	75,000	75,000
2016		-	4.25	75,000	75,000
Total		<u>\$ 61,266</u>		<u>\$ 870,000</u>	<u>931,266</u>

See accompanying independent auditor's report.



Revenue Notes				
Electric Wind Generator		Gas		
Issued Jan 1, 2004		Issued Mar 1, 2006		
Interest Rates	Amount	Interest Rates	Amount	Total
3.05%	\$ 45,000	3.85%	\$ 64,948	109,948
3.40	45,000	3.85	67,493	112,493
3.60	50,000	3.85	46,459	96,459
3.85	50,000		-	50,000
4.05	50,000		-	50,000
4.20	55,000		-	55,000
4.35	55,000		-	55,000
4.50	60,000		-	60,000
	-		-	-
	-		-	-
	<u>\$ 410,000</u>		<u>\$ 178,900</u>	<u>588,900</u>

**City of Wall Lake**



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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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:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Wall Lake, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 23, 2006. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005. Except as noted in the Independent Auditor's Report, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Wall Lake's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A), (C) and (H) are 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, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

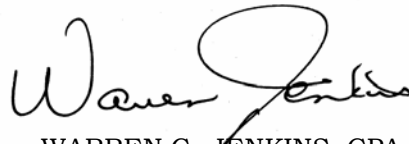
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions 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.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Wall Lake during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 23, 2006

City of Wall Lake  
Schedule of Findings  
Year ended June 30, 2006

**Findings Related to the Financial Statements:**

**REPORTABLE CONDITIONS:**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal, utility billing and collection, disbursement preparation and check signing and payroll are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will review this and try to utilize existing personnel to provide additional control.

Conclusion – Response accepted.

- (B) Records of Accounts – The City maintains separate bank accounts for the swimming pool, community center, library building and the Wall Lake Wellness Room. The financial transactions and the resulting balances were not entirely included in the City’s accounting records and were not included in the City’s annual budget or monthly financial reports. However, those financial transactions and the resulting balances are included in these financial statements.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and annual budget and should be reported to the Council on a monthly basis.

Response – We will close these accounts and include transactions on the City’s records.

Conclusion – Response accepted.

- (C) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits. In addition, utility billing stubs returned with a payment are not marked with the payment date or whether the payment was cash or check.

City of Wall Lake

Schedule of Findings

Year ended June 30, 2006

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies. Also, utility billing stubs should be marked with the payment date and the method of payment (cash or check).

Response – We will reconcile utility billings to collections and delinquency and will mark stubs with the payment date and method of payment.

Conclusion – Response accepted.

- (D) Employment Policies – The City does not require timesheets for all employees and there is no proper accounting for vacation and sick leave balances. Also, the employee personnel policies do not include a policy for sick leave.

Recommendation – To strengthen control over payroll and compensated absences, the City should require all employees to prepare timesheets, account for any unused vacation and establish and account for sick leave, if any is prescribed by the policy.

Response – We will require timesheets for all employees and will establish a sick leave policy.

Conclusion – Response accepted.

- (E) Receipts – The City did not issue prenumbered receipts for all collections.

Recommendation – Prenumbered receipts should be issued immediately for all collections, including receipts deposited directly to the bank account, to document collections are deposited timely.

Response – We will start to do this immediately.

Conclusion – Response accepted.

- (F) Disbursements – The “City of Wall Lake Expense Review and Approval Process Policy” requires disbursements over \$250 to be reviewed by the City Manager and the review be documented by the City Manager’s initials and/or signature. Certain disbursements over \$250 were not initialed and/or signed.

Also, the policy requires all bills for fuel to identify the vehicle for which the fuel was purchased and include the signature of the purchaser. One employee is not doing this.

Recommendation – The City should comply with its policy for the payment of disbursements.

Response – We will start to enforce our policy.

Conclusion – Response accepted.

City of Wall Lake

Schedule of Findings

Year ended June 30, 2006

- (G) Electronic Data Processing Systems – The following weaknesses in the City’s computer-based systems were noted:

The City does not have written policies for:

- Internet and personal usage.
- Password privacy and usage.
- Requiring backup tapes be stored off-site.
- A disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer based systems.

Response – We will develop the policy.

Conclusion – Response accepted.

- (H) Bank Reconciliations – The monthly Clerk’s report does not include complete information to document book balances reconcile to the bank balances, including the investments in the book balances. The variance between the book balance and bank balance was \$2,490 at June 30, 2006. This matter was resolved for audit purposes. Also, certain bank statements do not cut off on the last day of the month.

Recommendation – The monthly Clerk’s report should contain fund balance information, receipts and disbursements and documentation of the reconciliation of book balances to the bank balances each month. All city bank accounts and investments should be included on the monthly reports. Also, all bank statements should cut off on the last day of the month.

Response – We will implement changes to document fund balances reconcile to bank balances on the monthly reports. Also, we will contact the bank about statements being cut off on the last day of the month.

Conclusion – Response accepted.

- (I) Cell Phone Policy – The City does not have a written policy for the use of City provided cell phones.

Recommendation – The City should adopt a written policy for the use of City provided cell phones.

Response – We will consider policies for these items.

Conclusion – Response accepted.

City of Wall Lake

Schedule of Findings

Year ended June 30, 2006

- (J) Investment Register – An investment register is not maintained to include detailed information for all investments on hand and interest received on each investment.

Recommendation – The City should maintain a detailed register of each investment purchased and redeemed, including the investment number, interest rate, date purchased, maturity date and amount of investment.

Response – I will purchase an investment register and keep one up to date.

Conclusion – Response accepted.



City of Wall Lake  
 Schedule of Findings  
 Year ended June 30, 2006

**Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the culture and recreation, debt service, capital projects and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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 – We will amend the budget in sufficient amounts in the future.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Tom Schroeder, City Manager, Owner of T&T Lawn Care	Mowing Fertilizer and weed spray	\$ 7,200 6,584

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the City Manager do not appear to represent conflicts of interest since the transactions were entered into through competitive bidding.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not, except as noted below.

Although minutes of Council proceedings were published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa, the publications did not include disbursements by fund and a summary of receipts as required.

The City sold a police car and a boom truck. There was no evidence the Council approved these sales of capital assets.

City of Wall Lake

Schedule of Findings

Year ended June 30, 2006

The minutes did not contain sufficient information to determine the vote of each member of the Council in all cases.

The minutes did not contain a description of certain resolutions passed.

Recommendation – The City should publish minutes as required. The Council should approve any sale of capital assets and document the approval in the minutes. Minutes should contain sufficient information to document the vote of each member of the Council and should contain a description of all resolutions passed.

Response – In the future, we will publish minutes as required, make sure the Council approves the sales of assets, include the votes of each Council member in the minutes and include a description of resolutions approved.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of noncompliance with the deposit and investments provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Notes and Bank Loan – Except as follows, the City is in compliance with the resolutions providing for the issuance of the electric and gas revenue notes.

The gas revenue note resolution states the City will provide for the collection rates to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of the utility and to have a balance of net revenues equal to at least 125% of the principal and interest due on the bonds each fiscal year. The City has not complied with this provision.

The City entered into a bank loan during the year for the community center. This loan was not properly established in accordance with the Code of Iowa which requires the City to publish notices and hold public hearings.

Recommendation – The City should periodically review the Enterprise, Gas Fund to ensure established rates will result in sufficient funds to meet future obligations. Also, all debt issues should comply with the Code of Iowa.

Response – We will review the net earnings violation and will properly establish any future loans.

Conclusion – Response accepted.

City of Wall Lake

Schedule of Findings

Year ended June 30, 2006

- (9) Financial Condition – The Debt Service, Enterprise, Gas and Enterprise, Landfill Funds had deficit balances at June 30, 2006 of \$272, \$247,664 and \$6,061, respectively.

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

Response – The Debt Service deficit was caused by delinquent taxes, the gas deficit has been there since the City established gas system and should eventually be eliminated with new industry that has been established. The Landfill deficit will be eliminated with future collections from fees.

Conclusion – Response accepted.

- (10) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will inform the bank of these requirements.

Conclusion – Response accepted.

- (11) Community Fire Association – The City participates in the Community Fire Association which provides fire protection to the City and surrounding areas. This Association operates as a 28E organization but does not have an agreement between the City and participating townships.

Recommendation – The City should work with the Community Fire Association and the participating townships to establish a 28E agreement.

Response – I have talked to the Fire Chief and they are in the process of getting a 28E agreement drawn up.

Conclusion – Response accepted.

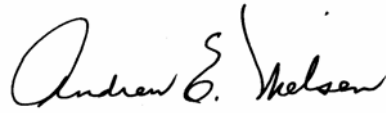
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City of Wall Lake

Staff

This audit was performed by:

K. David Voy, CPA, Manager  
Paul F. Kearney, CGFM, Senior Auditor  
Tracy L. Haronik, Staff Auditor  
James R. Wittenwyler, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial 'A' and a distinct 'E'.

Andrew E. Nielsen, CPA  
Deputy Auditor of State