



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

January 21, 2004

Contact: Andy Nielsen
515/281-5834

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

The City has implemented new reporting standards for the year ended June 30, 2004, 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 \$3,420,962 for the year ended June 30, 2004, a 20 percent increase from 2003. The receipts included \$1,551,223 in property and other city taxes, \$330,256 from local option sales tax, \$1,016,860 from charges for service, \$438,411 from operating grants, contributions and restricted interest, \$4,956 from capital grants, contributions and restricted interest and \$79,256 from other general receipts.

Disbursements for the year totaled \$3,090,221, an 11 percent decrease from the prior year, and included \$633,691 for public safety, \$588,998 for culture and recreation and \$506,599 for debt service. Also, disbursements for business type activities totaled \$655,081.

The significant increase in receipts is due primarily to additional tax increment financing collections, an increase in property tax collections and an increase in water and sewer user fees. The significant decrease in disbursements is due primarily to the completion of significant capital projects in the prior year.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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

JUNE 30, 2004

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City of Carter Lake

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Emil Hausner	Mayor	Jan 2006
Eric Bentzinger	Council Member	Jan 2004
George Dahlheimer	Council Member	Jan 2004
Pat Schroeder	Council Member	Jan 2004
Ed Aldmeyer	Council Member	Jan 2006
Russell Kramer	Council Member	Jan 2006
(After January 2004)		
Emil Hausner	Mayor	Jan 2006
Russell Kramer	Council Member	Jan 2006
Ed Aldmeyer	Council Member	Jan 2006
Jim Cannon	Council Member	Jan 2008
Barb Hawkins	Council Member	Jan 2008
Marcy Hawkins	Council Member	Jan 2008
Doreen Mowery	Clerk/Treasurer	Indefinite
Lisa Ruehle	Deputy Clerk	Indefinite
Joe Thornton	Attorney	Indefinite

City of Carter 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 Carter Lake, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Carter Lake'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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that 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.

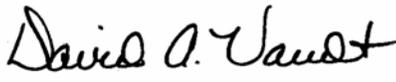
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Carter Lake as of June 30, 2004, 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 10, during the year ended June 30, 2004, 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 September 29, 2004 on our consideration of the City of Carter Lake's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Carter Lake's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 29, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Carter 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, 2004. 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, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- The City's total receipts for governmental activities increased 17.6%, or approximately \$359,000, from fiscal year 2003 to 2004. The total cost of all programs and services decreased 8.4%, or approximately \$224,000, with no new programs added this year. The increase in receipts was primarily the result of increased property tax to cover the cost of tort and health insurance, the implementation of an ambulance user fee, grant funding for park projects and an increase in hotel/motel tax and local option sales tax.
- The City increased property tax rates for 2004 by an average of 4.6%. This increase raised the City's budgeted property tax receipts by approximately \$92,000 in 2004. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase by an additional \$73,000 next year.
- The cost of all governmental activities this year was \$2.4 million compared to \$2.7 million last year. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was \$1.8 million because some of the cost was paid by those directly benefited from the programs (\$178,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$443,000).

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 of the City's budget for the year.

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund and 4) the Capital Projects 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 statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$298,638 to \$234,709. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
(Expressed in Thousands)	
	Year ended June 30, 2004
Receipts:	
Program receipts:	
Charges for service	\$ 178
Operating grants, contributions and restricted interest	438
Capital grants, contributions and restricted interest	5
General receipts:	
Property and other city taxes	1,168
Tax increment financing	185
Local option sales tax	165
Other city tax	199
Unrestricted interest on investments	8
Other general receipts	46
Total receipts	<u>2,392</u>
Disbursements and transfers:	
Public safety	634
Public works	371
Culture and recreation	589
General government	263
Debt service	506
Capital projects	72
Transfers, net	21
Total disbursements and transfers	<u>2,456</u>
Decrease in cash basis net assets	(64)
Cash basis net assets beginning of year	<u>299</u>
Cash basis net assets end of year	<u>\$ 235</u>

Total governmental activities receipts for the fiscal year were \$2.392 million compared to \$2.034 million last year. This increase was due primarily to an increase in property tax and tax increment financing collections.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year ended June 30, 2004
Receipts and transfers:	
Program receipts:	
Charges for service:	
Water	\$ 374
Sewer	301
Garbage	164
General receipts:	
Local option sales tax	165
Loan proceeds	25
Transfers	21
Total receipts and transfers	1,050
Disbursements:	
Water	317
Sewer	231
Garbage	107
Total disbursements	655
Increase in cash basis net assets	395
Cash basis net assets beginning of year	105
Cash basis net assets end of year	\$ 500

Total business type activities charges for service for the fiscal year were \$838,836, compared to \$668,505 last year. This increase was due primarily to the Council enacting increases to water and sewer user fees. The cash balance increased by approximately \$395,000 from the prior year due to the increase in fees and a reduction in expenses.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Carter Lake completed the year, its governmental funds reported a combined fund balance of approximately \$235,000, a decrease of almost \$64,000 below last year's total of approximately \$299,000. 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 by \$9,217 from the prior year to \$227,258. This decrease could be attributed to the use of reserve funds for day-to-day operations.
- The Road Use Tax Fund cash balance increased by \$16,606 to \$136,676 during the fiscal year. This increase was attributed to an increase in receipts from both road use tax funding and local option sales tax received during the year.
- The Tax Increment Financing Fund cash balance decreased by \$31,026 to a negative balance of \$194,173. This decrease is attributed to prior errors in assessing properties properly and the inability of the City to collect the tax amounts that were originally projected. It has been determined by the City Council that the negative fund balance will clear out over a matter of

approximately 12 years. It should be noted tax revenue has started to flow in for Urban Renewal Project #2. Fifty-seven percent of the funds collected will be distributed to the developer per the development agreement between the City and the developer.

- The Debt Service Fund cash balance increased by \$10,698 to \$43,472 during the fiscal year. This increase was due to an increase in property tax. There were no additional notes issued during the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$139,220 to \$195,210, due primarily to an increase in the rates charged to customers. Disbursements decreased from the previous year by approximately \$75,000.
- The Sewer Fund cash balance increased by \$177,625 to \$219,740, due primarily to an increase in the rates charged to customers. Disbursements decreased from the previous year by approximately \$52,000.
- The Garbage Fund cash balance increased by \$56,825 to \$155,970, due primarily to reductions in disbursements. The reduction can be attributed to the timing of bills paid in 2003. Garbage fees were not increased during the year 2004.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on March 11, 2004 and resulted in a net increase of \$243,019 in disbursements. The increase was to provide for additional disbursements in certain City departments. The City had sufficient grant funds and cash balances to absorb these additional costs.

COMMITMENTS

At June 30, 2004, the City had approximately \$2,636,000 in notes and other long-term debt, compared to approximately \$3,010,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30, 2004
General obligation notes	\$ 2,175
Urban renewal tax increment financing revenue notes	365
Lease purchase agreements	57
Loans	39
Total	<u>\$ 2,636</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 debt of approximately \$2,636,000 is significantly below its constitutional debt limit of \$4 million.

More detailed information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the 2005 fiscal year budget. One of those factors is the economy. The City's total assessed valuations have increased slightly. However, funding from the State has decreased due to the State's budget constraints

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 Doreen Mowery, City Clerk, 950 Locust Street, Carter Lake, Iowa.

Basic Financial Statements

City of Carter Lake

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 633,691	103,416	42,062	-
Public works	370,813	-	270,518	-
Culture and recreation	588,998	52,841	125,831	-
General government	263,233	21,767	-	-
Debt service	506,599	-	-	4,956
Capital projects	71,806	-	-	-
Total governmental activities	2,435,140	178,024	438,411	4,956
Business type activities:				
Water	317,361	374,017	-	-
Sewer	230,423	300,697	-	-
Garbage	107,297	164,122	-	-
Total business type activities	655,081	838,836	-	-
Total	\$ 3,090,221	1,016,860	438,411	4,956

General Receipts:
 Property and other city taxes levied for:
 General purposes
 Tax increment financing
 Debt service
 Local option sales tax
 Other city tax
 Unrestricted interest on investments
 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

Cash Basis Net Assets

Restricted:
 Streets
 Urban renewal purposes
 Debt service
 Other purposes
 Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(488,213)	-	(488,213)
(100,295)	-	(100,295)
(410,326)	-	(410,326)
(241,466)	-	(241,466)
(501,643)	-	(501,643)
(71,806)	-	(71,806)
(1,813,749)	-	(1,813,749)
-	56,656	56,656
-	70,274	70,274
-	56,825	56,825
-	183,755	183,755
(1,813,749)	183,755	(1,629,994)
870,634	-	870,634
184,343	-	184,343
296,971	-	296,971
165,128	165,128	330,256
199,275	-	199,275
8,111	-	8,111
-	24,787	24,787
46,358	-	46,358
(21,000)	21,000	-
1,749,820	210,915	1,960,735
(63,929)	394,670	330,741
298,638	104,842	403,480
\$ 234,709	499,512	734,221
\$ 136,676	-	136,676
(194,173)	-	(194,173)
43,472	-	43,472
41,245	-	41,245
207,489	499,512	707,001
\$ 234,709	499,512	734,221

City of Carter Lake

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

As of and for the year ended June 30, 2004

	Special		
	General	Road Use Tax	Employees' Retirement
Receipts:			
Property tax	\$ 663,114	-	173,365
Tax increment financing	-	-	-
Other city tax	259,417	115,590	2,759
Licenses and permits	100,410	-	-
Use of money and property	31,844	-	-
Intergovernmental	153,423	270,518	-
Charges for service	28,979	-	-
Special assessments	-	-	-
Miscellaneous	85,717	-	-
Total receipts	<u>1,322,904</u>	<u>386,108</u>	<u>176,124</u>
Disbursements:			
Operating:			
Public safety	543,581	-	90,101
Public works	1,311	369,502	-
Culture and recreation	547,297	-	41,701
General government	239,932	-	23,301
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>1,332,121</u>	<u>369,502</u>	<u>155,103</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(9,217)</u>	<u>16,606</u>	<u>21,021</u>
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	(9,217)	16,606	21,021
Cash balances beginning of year	236,475	120,070	15,711
Cash balances end of year	<u>\$ 227,258</u>	<u>136,676</u>	<u>36,732</u>
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	-	-
Unreserved:			
General fund	227,258	-	-
Special revenue funds	-	136,676	36,732
Capital projects fund	-	-	-
Total cash basis fund balances	<u>\$ 227,258</u>	<u>136,676</u>	<u>36,732</u>

See notes to financial statements.

Revenue			
Tax Increment Financing	Debt Service	Nonmajor Governmental Funds	Total
-	292,598	20,465	1,149,542
184,343	-	-	184,343
-	4,374	327	382,467
-	-	-	100,410
-	-	12	31,856
-	-	-	423,941
-	-	-	28,979
-	4,956	-	4,956
-	-	-	85,717
184,343	301,928	20,804	2,392,211
-	-	9	633,691
-	-	-	370,813
-	-	-	588,998
-	-	-	263,233
88,914	417,685	-	506,599
-	-	71,806	71,806
88,914	417,685	71,815	2,435,140
95,429	(115,757)	(51,011)	(42,929)
-	126,455	-	126,455
(126,455)	-	(21,000)	(147,455)
(126,455)	126,455	(21,000)	(21,000)
(31,026)	10,698	(72,011)	(63,929)
(163,147)	32,774	56,755	298,638
(194,173)	43,472	(15,256)	234,709
-	43,472	-	43,472
-	-	-	227,258
(194,173)	-	4,513	(16,252)
-	-	(19,769)	(19,769)
(194,173)	43,472	(15,256)	234,709

Exhibit C

City of Carter Lake

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

As of and for the year ended June 30, 2004

	Enterprise Funds				Total
	Water	Sewer	Garbage	Nonmajor- Golf Course	
Operating receipts:					
Charges for service	\$ 370,067	300,697	164,122	-	834,886
Miscellaneous	3,950	-	-	-	3,950
Total operating receipts	374,017	300,697	164,122	-	838,836
Operating disbursements:					
Business type activities:					
Operations	317,361	223,113	107,297	-	647,771
Capital outlay	-	7,310	-	-	7,310
Total operating disbursements	317,361	230,423	107,297	-	655,081
Excess of operating receipts over operating disbursements	56,656	70,274	56,825	-	183,755
Non-operating receipts:					
Local option sales tax	82,564	82,564	-	-	165,128
Loan proceeds	-	24,787	-	-	24,787
Total non-operating receipts	82,564	107,351	-	-	189,915
Excess of receipts over disbursements	139,220	177,625	56,825	-	373,670
Operating transfers in	-	-	-	21,000	21,000
Net change in cash balances	139,220	177,625	56,825	21,000	394,670
Cash balances beginning of year	55,990	42,115	99,145	(92,408)	104,842
Cash balances end of year	\$ 195,210	219,740	155,970	(71,408)	499,512
Cash Basis Fund Balances					
Unreserved	\$ 195,210	219,740	155,970	(71,408)	499,512

See notes to financial statements.

City of Carter Lake

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Carter Lake is a political subdivision of the State of Iowa located in Pottawattamie County. It was first incorporated in 1930 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, culture and recreation and general government services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Carter 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 Pottawattamie County Assessor's Conference Board and the Pottawattamie 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 services.

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

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

Unrestricted net assets consist of net assets 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.

Special Revenue:

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

The Employees' Retirement Fund is used to account for special tax levy collections to be used for employee benefits.

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

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

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 Garbage Fund accounts for the collection and disbursement of garbage collection and landfill fees.

C. Measurement Focus and Basis of Accounting

The City of Carter Lake 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.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 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.

(3) Notes and Other Financing Arrangements Payable

Annual debt service requirements to maturity for general obligation and urban renewal tax increment financing revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Urban Renewal Tax Increment Financing Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 185,000	112,343	30,000	21,350	215,000	133,693
2006	180,000	102,644	35,000	19,550	215,000	122,194
2007	155,000	93,098	35,000	17,500	190,000	110,598
2008	160,000	85,681	40,000	15,450	200,000	101,131
2009	165,000	77,925	40,000	13,150	205,000	91,075
2010-2014	495,000	300,114	185,000	27,500	680,000	327,614
2015-2019	570,000	164,722	-	-	570,000	164,722
2020-2021	265,000	21,639	-	-	265,000	21,639
Total	\$ 2,175,000	958,166	365,000	114,500	2,540,000	1,072,666

The urban renewal tax increment financing revenue notes were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The notes are payable solely from the income and proceeds of the Tax Increment Financing Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue notes shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The notes are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

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

- (a) The notes will only be redeemed from future tax increment financing revenues received by the City.
- (b) Sufficient monthly transfers shall be made to a separate urban renewal revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of 25% of the amount required to be deposited each month in the sinking account shall be made to an urban renewal revenue reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of making the note principal and interest payments when the sinking account balance is insufficient.

Iowa Community and Rural Development Loan

On February 25, 1991, the City entered into a loan agreement with the Iowa Department of Economic Development (DED) for the purpose of financing lake level maintenance from DED's Iowa Community and Rural Development Loan Program. The loan of \$87,269 is to be repaid to DED in 15 annual installments which began January 2, 1992 and will end with the final payment on January 2, 2006. The loan bears interest at 3% per annum and the unpaid principal balance at June 30, 2004 totaled \$13,987.

Lease-Purchase Agreements

On March 1, 2000, the City entered into a lease-purchase agreement to purchase a street sweeper. The total cost was \$39,000 plus 7.57% per annum interest to be financed over a five-year period. During the year ended June 30, 2004, the final payment of \$18,468, including interest, was paid under this agreement.

On April 12, 2000, the City entered into a lease-purchase agreement to purchase a Park Department pickup. The total cost was \$14,476 plus 7.20% per annum interest to be financed over a four-year period. During the year ended June 30, 2004, the final payment of \$4,071, including interest, was paid under this agreement.

On June 22, 2000, the City entered into a lease-purchase agreement to purchase a dump truck. The total cost was \$41,302 plus 7.30% per annum interest to be financed over a five-year period. During the year ended June 30, 2004, the final payment of \$9,464, including interest, was paid under this agreement.

On July 12, 2000, the City entered into a lease-purchase agreement to purchase a senior citizens van. The total cost was \$21,370 plus 7.20% per annum interest to be financed over a three-year period. During the year ended June 30, 2004, the final payment of \$5,912, including interest, was paid under this agreement.

On January 5, 2001, the City entered into a lease-purchase agreement to purchase an ambulance. The total cost was \$81,130 plus 6.295% per annum interest to be financed over a seven-year period. During the year ended June 30, 2004, \$14,686, including interest, was paid under this agreement. The principal balance at June 30, 2004 was \$50,546.

On July 20, 2001, the City entered into a lease-purchase agreement to purchase a tractor. The total cost was \$45,785 plus 6.25% per annum interest to be financed over a two-year period. During the year ended June 30, 2004, the final payment of \$16,452, including interest, was paid under this agreement.

On July 5, 2002, the City entered into a lease-purchase agreement to purchase a telephone system. The total cost was \$9,437 plus 13.68% per annum interest to be financed over a five-year period. During the year ended June 30, 2004, \$2,616, including interest, was paid under this agreement. The principal balance at June 30, 2004 was \$6,408.

On September 1, 2002, the City entered into a lease-purchase agreement to purchase a police vehicle. The total cost was \$20,520 plus 7.00% per annum interest to be financed over a one-year period. During the year ended June 30, 2004, the final payment of \$10,966, including interest, was paid under this agreement.

The following is a schedule of the future minimum payments and the present value of the net minimum payments under the lease-purchase agreements at June 30, 2004:

Year Ending June 30,	Ambulance	Telephone System	Total
2005	\$ 14,686	2,616	17,302
2006	14,686	2,616	17,302
2007	14,686	2,616	17,302
2008	14,686	-	14,686
Total payments	58,744	7,848	66,592
Less amount representing interest	(8,198)	(1,440)	(9,638)
Principal value of net payments	\$ 50,546	6,408	56,954

Bank Loan – On November 3, 2003, the City entered into a loan agreement with Peoples National Bank totaling \$24,787, at 2.75% interest, to be used for the purchase of a sewer jet machine. The loan will be repaid by the City in two equal annual installments of \$12,944 on December 3 in each of the years 2004 and 2005.

(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.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the

contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$50,022, \$55,766 and \$52,366, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, sick leave and compensatory time termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 32,000
Compensatory time	8,000
Sick leave	<u>72,000</u>
Total	<u>\$112,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

(6) 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.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue: Tax Increment Financing	\$ 126,455
Enterprise: Golf Course	Special Revenue: Emergency	<u>21,000</u>
Total		<u>\$ 147,455</u>

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

(8) Deficit Balances

The Special Revenue, Tax Increment Financing Fund had a deficit balance of \$194,173 at June 30, 2004. The deficit balance will be eliminated through transfers from other city funds and future tax increment financing collections.

The Capital Projects Fund had a deficit balance of \$19,769 at June 30, 2004. The deficit balance will be eliminated through transfers from other city funds.

The Enterprise, Golf Course Fund had a deficit balance of \$71,408 at June 30, 2004. The City plans to eliminate the deficit through collection of an emergency tax levy.

(9) Development and Rebate Agreement

The City entered into a development and rebate agreement during the year ended June 30, 2000 to assist in an urban renewal project. The City agreed to rebate incremental taxes paid by the developer in exchange for public improvement infrastructure constructed by the developer 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 developer will be rebated for a period of ten years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The total amount that will be rebated under the development and rebate agreement is not to exceed the actual cost of the public improvement paid for by the developer.

The City collected tax increment financing to be rebated to the developer. However, the developer returned the City's check, and accordingly, no rebates were paid to the developer in fiscal year 2004.

No bonds or notes were issued for this construction project.

(10) 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, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statements and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

City of Carter Lake

Required Supplementary Information

City of Carter 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, 2004

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 1,149,542	-
Tax increment financing	184,343	-
Other city tax	382,466	165,128
Licenses and permits	100,410	-
Use of money and property	31,856	-
Intergovernmental	423,941	-
Charges for service	28,979	834,886
Special assessments	4,957	-
Miscellaneous	85,717	3,950
Total receipts	<u>2,392,211</u>	<u>1,003,964</u>
Disbursements:		
Public safety	633,691	-
Public works	370,813	-
Health and social services	-	-
Culture and recreation	588,998	-
General government	263,233	-
Debt service	506,599	-
Capital projects	71,806	-
Business type activities	-	655,081
Total disbursements	<u>2,435,140</u>	<u>655,081</u>
Excess (deficiency) of receipts over (under) disbursements	(42,929)	348,883
Other financing sources, net	<u>(21,000)</u>	<u>45,787</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(63,929)	394,670
Balances beginning of year	<u>298,638</u>	<u>104,842</u>
Balances end of year	<u>\$ 234,709</u>	<u>499,512</u>

See accompanying independent auditor's report.

Total Actual	Budgeted Amounts		Final to Total Actual Variance
	Original	Final	
1,149,542	1,111,934	1,107,830	41,712
184,343	185,897	188,184	(3,841)
547,594	411,388	378,413	169,181
100,410	36,525	84,225	16,185
31,856	28,650	30,856	1,000
423,941	394,401	464,347	(40,406)
863,865	711,450	817,767	46,098
4,957	-	4,477	480
89,667	218,590	239,958	(150,291)
<u>3,396,175</u>	<u>3,098,835</u>	<u>3,316,057</u>	<u>80,118</u>
633,691	688,532	701,335	67,644
370,813	431,083	416,404	45,591
-	1,000	-	-
588,998	514,986	619,980	30,982
263,233	284,124	268,685	5,452
506,599	469,923	539,853	33,254
71,806	-	71,806	-
655,081	715,367	729,971	74,890
<u>3,090,221</u>	<u>3,105,015</u>	<u>3,348,034</u>	<u>257,813</u>
305,954	(6,180)	(31,977)	337,931
24,787	-	24,787	-
330,741	(6,180)	(7,190)	337,931
403,480	294,271	403,480	-
<u>734,221</u>	<u>288,091</u>	<u>396,290</u>	<u>337,931</u>

City of Carter Lake

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

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

Formal and legal budgetary control is based upon 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, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and 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 \$243,019. The budget amendment is reflected in the final budgeted amounts.

Other Supplementary Information

City of Carter Lake

City of Carter Lake

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

As of and for the year ended June 30, 2004

	Special Revenue			Total
	Emergency	Police Forfeiture	Capital Projects	
Receipts:				
Property tax	\$ 20,465	-	-	20,465
Other city tax	327	-	-	327
Use of money and property	-	12	-	12
Total receipts	20,792	12	-	20,804
Disbursements:				
Operating:				
Public safety	-	9	-	9
Capital projects	-	-	71,806	71,806
Total disbursements	-	9	71,806	71,815
Excess (deficiency) of receipts over (under) disbursements	20,792	3	(71,806)	(51,011)
Other financing (uses):				
Operating transfers out	(21,000)	-	-	(21,000)
Net change in cash balances	(208)	3	(71,806)	(72,011)
Cash balances beginning of year	1,479	3,239	52,037	56,755
Cash balances end of year	\$ 1,271	3,242	(19,769)	(15,256)
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ 1,271	3,242	-	4,513
Capital projects fund	-	-	(19,769)	(19,769)
Total cash basis fund balances	\$ 1,271	3,242	(19,769)	(15,256)

See accompanying independent auditor's report.

City of Carter Lake
Schedule of Indebtedness
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Capital loan	Mar 1, 1994	4.50%	\$ 350,000
Capital loan	Jan 1, 1995	6.25-6.55	280,000
Capital loan	Jun 1, 1999	4.500-5.125	550,000
Capital loan	Dec 1, 2000	4.85-5.80	865,000
Capital loan	May 1, 2001	5.00-5.30	1,200,000
Total			
Urban renewal tax increment financing revenue notes:			
Capital loan	Feb 1, 1999	7.00%	\$ 200,000
Capital loan	Feb 1, 1999	5.00	250,000
Total			
Iowa Community and Rural Development loan	Feb 25, 1991	3.00%	\$ 87,269
Lease-purchase agreements:			
Street sweeper	Mar 1, 2000	7.57%	\$ 39,000
Park pickup	Apr 12, 2000	7.20	14,476
Dump truck	Jun 22, 2000	7.30	41,302
Senior citizens van	Jul 12, 2000	7.20	21,370
Ambulance	Jan 5, 2001	6.295	81,130
Tractor	Jul 20, 2001	6.25	45,785
Telephone system	Jul 5, 2002	13.68	9,437
Police vehicle	Sep 1, 2002	7.00	20,520
Total			
Bank loan:			
Sewer jet machine	Nov 3, 2003	2.75	\$ 24,787

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
50,000	-	50,000	-	2,250
85,000	-	25,000	60,000	5,488
405,000	-	60,000	345,000	19,632
725,000	-	155,000	570,000	37,910
1,200,000	-	-	1,200,000	61,493
\$ 2,465,000	-	290,000	2,175,000	126,773
170,000	-	15,000	155,000	11,900
225,000	-	15,000	210,000	11,250
\$ 395,000	-	30,000	365,000	23,150
20,677	-	6,690	13,987	620
16,565	-	16,565	-	1,903
3,798	-	3,798	-	273
8,820	-	8,820	-	644
5,515	-	5,515	-	397
61,369	-	10,823	50,546	3,863
15,243	-	15,243	-	1,209
8,025	-	1,617	6,408	999
10,250	-	10,250	-	716
\$ 129,585	-	72,631	56,954	10,004
-	24,787	-	24,787	-

Schedule 3

City of Carter Lake
Bond and Note Maturities
June 30, 2004

Year Ending June 30,	General Obligation Notes									Total
	Capital Loan Notes		Capital Loan Notes		Capital Loan Notes		Capital Loan Notes			
	Issued Jan 1, 1995		Issued Jun 1, 1999		Issued Dec 1, 2000		Issued May 1, 2001			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2005	6.45%	\$ 30,000	5.125%	\$ 65,000	4.85%	\$ 45,000	5.00%	\$ 45,000	\$ 185,000	
2006	6.55	30,000	5.125	65,000	5.00	35,000	5.00	50,000	180,000	
2007	-	-	4.500	70,000	5.05	35,000	5.00	50,000	155,000	
2008	-	-	4.600	70,000	5.10	35,000	5.00	55,000	160,000	
2009	-	-	4.700	75,000	5.15	35,000	5.00	55,000	165,000	
2010	-	-	-	-	5.20	35,000	5.00	60,000	95,000	
2011	-	-	-	-	5.25	35,000	5.00	60,000	95,000	
2012	-	-	-	-	5.30	35,000	5.00	65,000	100,000	
2013	-	-	-	-	5.35	35,000	5.00	65,000	100,000	
2014	-	-	-	-	5.40	35,000	5.05	70,000	105,000	
2015	-	-	-	-	5.45	35,000	5.10	70,000	105,000	
2016	-	-	-	-	5.50	35,000	5.15	75,000	110,000	
2017	-	-	-	-	5.60	35,000	5.20	80,000	115,000	
2018	-	-	-	-	5.70	35,000	5.25	85,000	120,000	
2019	-	-	-	-	5.75	35,000	5.25	85,000	120,000	
2020	-	-	-	-	5.80	35,000	5.30	90,000	125,000	
2021	-	-	-	-	-	-	5.30	140,000	140,000	
Total		<u>\$ 60,000</u>		<u>\$345,000</u>		<u>\$570,000</u>		<u>\$ 1,200,000</u>	<u>\$ 2,175,000</u>	

Year Ending June 30,	Urban Renewal Tax Increment Financing Revenue Notes				
	Capital Loan Notes		Capital Loan Notes		Total
	Issued Feb 1, 1999		Issued Feb 1, 1999		
	Interest Rates	Amount	Interest Rates	Amount	
2005	7.00%	\$ 15,000	5.00%	\$ 15,000	\$ 30,000
2006	7.00	15,000	5.00	20,000	35,000
2007	7.00	15,000	5.00	20,000	35,000
2008	7.00	15,000	5.00	25,000	40,000
2009	7.00	15,000	5.00	25,000	40,000
2010	7.00	20,000	5.00	25,000	45,000
2011	7.00	20,000	5.00	25,000	45,000
2012	7.00	20,000	5.00	25,000	45,000
2013	7.00	20,000	5.00	30,000	50,000
Total		<u>\$155,000</u>		<u>\$210,000</u>	<u>\$365,000</u>

See accompanying independent auditor's report.

City of Carter Lake

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Two Years

	<u>2004</u>	<u>2003</u>
Receipts:		
Property tax	\$ 1,149,542	1,046,559
Tax increment financing	184,343	27,585
Other city tax	382,467	380,556
Licenses and permits	100,410	32,149
Use of money and property	31,856	34,355
Intergovernmental	423,941	402,198
Charges for service	28,979	10,086
Special assessments	4,956	7,158
Miscellaneous	85,717	93,012
	<u>\$ 2,392,211</u>	<u>2,033,658</u>
Total		
Disbursements:		
Operating:		
Public safety	\$ 633,691	699,532
Public works	370,813	329,723
Health and social services	-	85
Culture and recreation	588,998	534,420
General government	263,233	183,444
Debt service	506,599	465,144
Capital projects	71,806	446,888
	<u>\$ 2,435,140</u>	<u>2,659,236</u>
Total		

See accompanying independent auditor's report.

City of Carter 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 Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Carter Lake, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 29, 2004. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Carter Lake's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance 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, 2004 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. Prior year statutory comments have been resolved except for items (7) and (10).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Carter Lake's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 Carter 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 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 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 item (C) is a material weakness. There were no prior year reportable conditions.

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 Carter Lake and other parties to whom the City of Carter Lake 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 Carter 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

September 29, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- (A) Review of Reconciliations – Monthly reconciliations of the Clerk’s balances to the bank accounts and investments did not have any evidence of review by an independent person.

Recommendation – To improve financial accountability and control, the monthly reconciliations should be reviewed by an independent person and evidence of this review should be documented.

Response – We will initial reconciliations indicating independent reviews.

Conclusion – Response accepted.

- (B) Electronic Data Processing Systems – During our review of internal control, the existing control activities in the City’s computer-based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City’s computer-based systems were noted:

The City does not have written policies for:

- Requiring password changes every 60 to 90 days or to maintain password privacy and confidentiality.
- Internet usage.
- 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 adopt policies to cover this.

Conclusion – Response accepted.

- (C) Park and Recreation Department Collections – The Park and Recreation Department collects money for various recreation activities. The City does not receive a reconciliation of collections from the Park and Recreation Director and money is not always deposited in a timely manner.

City of Carter Lake

Schedule of Findings

Year ended June 30, 2004

Recommendation – The City should obtain a reconciliation report from the Park and Recreation Department for each day's financial activity. The report should include details of all collections reconciled to the actual amount to be deposited and should be reviewed for propriety.

Response – We will require proper documentation and all collections be deposited immediately.

Conclusion – Response accepted.

City of Carter Lake

Schedule of Findings

Year ended June 30, 2004

Findings Related to Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- (2) Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.
- (3) Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (6) 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.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The Council went into closed session on numerous occasions during the year. However, the minutes record did not always document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open meetings law.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa.

Response – Closed sessions will be documented as required in the future.

Conclusion – Response accepted.

- (8) Deposits and Investments – Deposits and investments were in compliance with Chapters 12B and 12C of the Code of Iowa and the City’s investment policy.
- (9) Revenue Notes – The City has established the sinking and reserve accounts required by the urban renewal tax increment financing revenue note resolutions.

City of Carter Lake
Schedule of Findings
Year ended June 30, 2004

(10) Financial Condition – At June 30, 2004, the City had deficit balances as follows:

Fund	Balance	
	June 30, 2004	June 30, 2003
Special Revenue:		
Tax Increment Financing	\$(194,173)	(163,148)
Capital Projects	(19,769)	(17,954)
Enterprise:		
Golf Course	(71,408)	(92,408)

Recommendation – The City should evaluate the reason for these deficits and investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial position. Some of these deficits have remained unchanged since fiscal 2002 and others are increasing.

Response – The Council intends to let the urban renewal accounts operate on their own with the understanding that it will take several years for the urban renewal taxes to catch up with disbursements. The Capital Projects Fund - Avenue H project will be left as is in case the project is renewed. The golf course account will take approximately 4 years to close using the special emergency levy.

Conclusion – Response accepted.

(11) City Code of Ordinances – The City code of ordinances has not been recodified since 1998.

Recommendation – Chapter 380.8(2) of the Code of Iowa requires the City Code of Ordinances be recodified at least once every five years.

Response – We have already started the process to update the City Code.

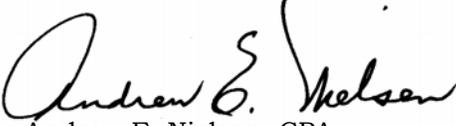
Conclusion – Response accepted.

City of Carter Lake

Staff

This audit was performed by:

Suzanne R. Hanft, CPA, Manager
Paul F. Kearney, CGFM, Senior Auditor
Sheila M. Jensen, Staff Auditor
Ryan J. Johnson, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State