



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

October 17, 2006

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's receipts totaled \$4,746,981 for the year ended June 30, 2006, an 18 percent increase over 2005. The receipts included \$1,963,131 in property and other city tax, \$404,278 from local option sales tax, \$1,234,891 from charges for service, \$466,614 from operating grants, contributions and restricted interest, \$13,036 from capital grants, contributions and restricted interest, \$593,200 in note proceeds and \$71,831 from other general receipts.

Disbursements for the year totaled \$3,501,665, a 1 percent increase over the prior year, and included \$859,846 for public safety, \$580,123 for culture and recreation and \$339,194 for debt service. Also, disbursements for business type activities totaled \$834,931.

The significant increase in receipts is due primarily to the receipt of note proceeds for the construction of storm water improvements, additional tax increment financing and an increase in charges for service resulting from increased utility rates.

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

JUNE 30, 2006

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City of Carter Lake

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Emil Hausner	Mayor	Jan 2006
Russell Kramer	Council Member	Jan 2006
David Lodes	Council Member	Jan 2006
Jim Cannon	Council Member	Jan 2008
Barb Hawkins	Council Member	Jan 2008
Marcy Hawkins	Council Member	Resigned
(After January 2006)		
Russell Kramer	Mayor	Jan 2010
Brian Saathoff	Council Member	(resigned June 2006)
Doug Wallingford (appointed)	Council Member	Nov 2007
Jim Cannon	Council Member	Jan 2008
Barb Hawkins	Council Member	Jan 2008
Steve Wilbur	Council Member	Jan 2010
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, 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 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 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.

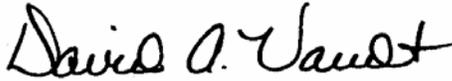
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

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, 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.

In accordance with Government Auditing Standards, we have also issued our report dated July 27, 2006 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 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 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 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 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, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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

July 27, 2006

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

2006 FINANCIAL HIGHLIGHTS

- The City's total receipts for governmental activities decreased 3.1%, or approximately \$93,000, from fiscal year 2005 to 2006. The total cost of all governmental activities programs and services decreased 2.2%, or approximately \$60,000. A community and economic development program financed with CEBA grant funds was deleted this year. The decrease in receipts was primarily the result of \$444,000 in CEBA grant funds received for the InfoUSA project last year.
- The City decreased property tax rates for 2006 by an average of 0.5%. However, due to increases in the total assessed valuation, the City's budgeted property tax receipts increased by approximately \$99,000 in 2006. Property tax receipts are budgeted to increase by an additional \$65,000 next year.
- The cost of all governmental activities this year was \$2.69 million compared to \$2.75 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 \$2 million because some of the cost was paid by those directly benefited from the programs (\$156,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$478,000).

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, 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 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, 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 waterworks, the sanitary sewer system, garbage and storm sewer activities. 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 five Enterprise Funds to provide separate information for the water, sewer, garbage, golf course and storm water funds. The water, sewer, garbage and storm water 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 increased from a year ago, from \$467,694 to \$667,907. 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	2005
Receipts:		
Program receipts:		
Charges for service	\$ 156	158
Operating grants, contributions and restricted interest	465	454
Capital grants, contributions and restricted interest	13	460
General receipts:		
Property and other city tax	1,298	1,199
Tax increment financing	377	213
Local option sales tax	202	164
Other city tax	288	255
Grants and contributions not restricted	1	29
Unrestricted interest on investments	34	10
Bank loan proceeds	21	-
Other general receipts	36	42
Total receipts	<u>2,891</u>	<u>2,984</u>
Disbursements and transfers:		
Public safety	873	803
Public works	319	303
Health and social services	1	1
Culture and recreation	588	534
Community and economic development	-	462
General government	266	277
Debt service	339	350
Capital projects	301	-
Transfers, net	4	21
Total disbursements and transfers	<u>2,691</u>	<u>2,751</u>
Increase in cash basis net assets	200	233
Cash basis net assets beginning of year	468	235
Cash basis net assets end of year	<u>\$ 668</u>	<u>468</u>

Total governmental activities receipts for the fiscal year were \$2.891 million compared to \$2.984 million last year. This decrease was due primarily to a decrease in CEBA grant funds offset by an increase in property tax, tax increment financing and other city tax.

The cost of all governmental activities this year was \$2.691 million compared to \$2.751 million last year. This decrease was due primarily to the disbursing of CEBA grant funds for the InfoUSA project in the prior year.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service:		
Water	\$ 424	386
Sewer	329	315
Garbage	167	168
Storm water	160	-
Use of money and property	2	-
General receipts:		
Local option sales tax	202	164
Note proceeds	593	-
Transfers, net	4	21
Total receipts and transfers	<u>1,881</u>	<u>1,054</u>
Disbursements:		
Water	345	289
Sewer	323	262
Garbage	121	136
Storm water	47	34
Total disbursements	<u>836</u>	<u>721</u>
Increase in cash basis net assets	1,045	333
Cash basis net assets beginning of year	833	500
Cash basis net assets end of year	<u>\$ 1,878</u>	<u>833</u>

Total business type activities charges for service receipts for the fiscal year were \$1,078,653, compared to \$869,713 last year. This increase was due primarily to the Council enacting increases in water and sewer user fees and contributions to the storm water program. The cash basis net assets increased approximately \$1,045,000 over the prior year, primarily due to the receipt of note proceeds of \$593,200.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Carter Lake completed the year, its governmental funds reported a combined fund balance of approximately \$668,000, an increase of approximately \$200,000 over last year's total of approximately \$468,000. 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 increased by \$66,879 from the prior year to \$293,252. This increase is attributed to an increase in property and other city tax collections.
- The Road Use Tax Fund cash balance increased by \$107,333 to \$317,653 during the fiscal year. This increase was attributed to an increase in collections for other city tax and road use tax allocations.
- The Tax Increment Financing Fund cash balance increased by \$5,856 to a negative balance of \$38,485. This increase is attributed to minimum assessment agreements being assessed to certain properties and property tax being collected timely. It has been determined by the City Council the negative fund balance will clear out over a matter of approximately 12 years. It should be noted fifty-seven percent of the funds collected for Urban Renewal Project #2 will be distributed to the developer per the development agreement between the City and the developer. The remaining forty-three percent of the funds will be used for housing rehabilitation for low to moderate income families in Carter Lake. The Urban Revitalization projects had disbursements of \$335,086 during fiscal year 2006.
- The Debt Service Fund cash balance decreased by \$4,955 to \$32,340 during the fiscal year. This decrease was due to a decrease in property tax, as well as a decrease in debt obligations. There was one additional note issued during the year, but no payments were due on the new debt in the current year and future debt payments will be made from local option sales tax revenue.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$145,586 to \$501,826, due primarily to an increase in the rates charged to customers. Disbursements increased from the previous year by approximately \$56,000. Approximately \$101,000 of local option sales tax was credited to the Water Fund. The City transferred \$24,250 to the Storm Water Fund to cover part of the costs of the preparation and implementation of the Storm Water Master Plan.
- The Sewer Fund cash balance increased by \$73,244 to \$409,546, due primarily to an increase in the rates charged to customers. Disbursements increased from the previous year by approximately \$61,000. Approximately \$101,000 of local option sales tax was credited to the Sewer Fund. The City transferred \$24,250 to the Storm Water Fund to cover part of the costs of the preparation and implementation of the Storm Water Master Plan.
- The Garbage Fund cash balance increased by \$45,060 to \$233,562, due primarily to revenue exceeding expenditures. Garbage fees were not increased during the 2006 fiscal year. The contracted garbage rates did not increase during the 2006 year but, because of timing of the payment to the garbage contractor, disbursements decreased by \$14,428.
- The Storm Water Fund cash balance increased by \$757,213 to \$759,658, due primarily to the collection of \$160,000 for storm water projects and the sale of \$600,000 in notes for the construction of storm water improvements planned for future years.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on March 6, 2006 and resulted in a net increase of \$369,738 in disbursements. The increase was primarily to use cash reserves for the lake study and various capital projects. The City had sufficient grant funds, miscellaneous revenues and cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$2,755,000 in notes and other long-term debt outstanding, compared to approximately \$2,389,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2006	2005
General obligation notes	\$ 2,410	1,990
Urban renewal tax increment financing revenue notes	300	335
Lease purchase agreements	29	44
Loans	16	20
Total	\$ 2,755	2,389

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 \$2,760,000 is significantly below its constitutional debt limit of \$7.6 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 fiscal year 2007 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 51510.

Basic Financial Statements

City of Carter 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
Functions/Programs:				
Governmental activities:				
Public safety	\$ 872,856	87,010	26,443	-
Public works	319,333	-	271,940	12,500
Health and social services	980	-	-	-
Culture and recreation	588,453	49,358	137,221	-
General government	265,849	19,870	28,968	536
Debt service	339,194	-	-	-
Capital projects	301,409	-	-	-
Total governmental activities	2,688,074	156,238	464,572	13,036
Business type activities:				
Water	344,823	423,589	-	-
Sewer	322,416	328,841	-	-
Garbage	121,163	166,223	-	-
Storm water	46,529	160,000	2,042	-
Total business type activities	834,931	1,078,653	2,042	-
Total	\$ 3,523,005	1,234,891	466,614	13,036

General Receipts:

- Property and other city tax levied for:
 - General purposes
 - Tax increment financing
 - Debt service
- Local option sales tax
- Other city tax
- Grants and contributions not restricted
- Unrestricted interest on investments
- Miscellaneous
- Note proceeds (net of \$6,800 discount)
- Bank loan proceeds
- 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
 - 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
(759,403)	-	(759,403)
(34,893)	-	(34,893)
(980)	-	(980)
(401,874)	-	(401,874)
(216,475)	-	(216,475)
(339,194)	-	(339,194)
(301,409)	-	(301,409)
(2,054,228)	-	(2,054,228)
-	78,766	78,766
-	6,425	6,425
-	45,060	45,060
-	115,513	115,513
-	245,764	245,764
(2,054,228)	245,764	(1,808,464)
1,019,693	-	1,019,693
376,635	-	376,635
278,353	-	278,353
202,139	202,139	404,278
288,450	-	288,450
980	-	980
34,101	-	34,101
36,750	-	36,750
-	593,200	593,200
21,340	-	21,340
(4,000)	4,000	-
2,254,441	799,339	3,053,780
200,213	1,045,103	1,245,316
467,694	833,081	1,300,775
\$ 667,907	1,878,184	2,546,091
\$ 317,653	-	317,653
32,340	-	32,340
82,916	-	82,916
234,998	1,878,184	2,113,182
\$ 667,907	1,878,184	2,546,091

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, 2006

	Special Revenue		
	General	Road Use Tax	Tax Increment Financing
Receipts:			
Property tax	\$ 750,039	-	-
Tax increment financing	-	-	376,635
Other city tax	354,466	141,497	-
Licenses and permits	46,467	-	-
Use of money and property	59,905	-	-
Intergovernmental	154,441	284,440	-
Charges for service	45,138	-	-
Special assessments	-	-	-
Miscellaneous	108,998	-	980
Total receipts	1,519,454	425,937	377,615
Disbursements:			
Operating:			
Public safety	721,581	-	-
Public works	729	318,604	-
Health and social services	980	-	-
Culture and recreation	534,697	-	-
General government	241,928	-	-
Debt service	-	-	55,350
Capital projects	-	-	301,409
Total disbursements	1,499,915	318,604	356,759
Excess (deficiency) of receipts over (under) disbursements	19,539	107,333	20,856
Other financing sources (uses):			
Bank loan proceeds	21,340	-	-
Operating transfers in	35,000	-	-
Operating transfers out	(9,000)	-	(15,000)
Total other financing sources (uses)	47,340	-	(15,000)
Net change in cash balances	66,879	107,333	5,856
Cash balances beginning of year	226,373	210,320	(44,341)
Cash balances end of year	\$ 293,252	317,653	(38,485)
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	293,252	-	-
Special revenue funds	-	317,653	(38,485)
Capital projects fund	-	-	-
Total cash basis fund balances	\$ 293,252	317,653	(38,485)

See notes to financial statements.

Debt Service	Nonmajor	Total
276,625	264,279	1,290,943
-	-	376,635
1,728	-	497,691
-	-	46,467
-	-	59,905
-	-	438,881
-	4,773	49,911
536	-	536
-	-	109,978
<u>278,889</u>	<u>269,052</u>	<u>2,870,947</u>
-	151,275	872,856
-	-	319,333
-	-	980
-	53,756	588,453
-	23,921	265,849
283,844	-	339,194
-	-	301,409
<u>283,844</u>	<u>228,952</u>	<u>2,688,074</u>
(4,955)	40,100	182,873
-	-	21,340
-	9,000	44,000
-	(24,000)	(48,000)
-	(15,000)	17,340
(4,955)	25,100	200,213
37,295	38,047	467,694
<u>32,340</u>	<u>63,147</u>	<u>667,907</u>
32,340	-	32,340
-	-	293,252
-	82,916	362,084
-	(19,769)	(19,769)
<u>32,340</u>	<u>63,147</u>	<u>667,907</u>

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, 2006

	Enterprise					Total
	Water	Sewer	Garbage	Storm Water	Nonmajor	
					Golf Course	
Operating receipts:						
Charges for service	\$ 411,033	328,841	166,223	160,000	-	1,066,097
Miscellaneous	12,556	-	-	-	-	12,556
Total operating receipts	423,589	328,841	166,223	160,000	-	1,078,653
Operating disbursements:						
Business type activities:						
Operations	344,823	322,416	121,163	46,529	-	834,931
Excess of operating receipts over operating disbursements	78,766	6,425	45,060	113,471	-	243,722
Non-operating receipts:						
Local option sales tax	101,070	101,069	-	-	-	202,139
Interest on investments	-	-	-	2,042	-	2,042
Total non-operating receipts	101,070	101,069	-	2,042	-	204,181
Excess of receipts over disbursements	179,836	107,494	45,060	115,513	-	447,903
Other financing sources (uses):						
Note proceeds (net of \$6,800 discount)	-	-	-	593,200	-	593,200
Operating transfers in	-	-	-	48,500	24,000	72,500
Operating transfers out	(34,250)	(34,250)	-	-	-	(68,500)
Total other financing sources (uses)	(34,250)	(34,250)	-	641,700	24,000	597,200
Net change in cash balances	145,586	73,244	45,060	757,213	24,000	1,045,103
Cash balances beginning of year	356,240	336,302	188,502	2,445	(50,408)	833,081
Cash balances end of year	\$ 501,826	409,546	233,562	759,658	(26,408)	1,878,184
Cash Basis Fund Balances						
Unreserved	\$ 501,826	409,546	233,562	759,658	(26,408)	1,878,184

See notes to financial statements.

City of Carter Lake

Notes to Financial Statements

June 30, 2006

(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 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.

The Storm Water Fund accounts for the collection of funds to construct a new storm water system.

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. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the debt service function.

(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) 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		Total	
			Revenue Notes			
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 210,000	117,446	35,000	17,500	245,000	134,946
2008	220,000	107,966	40,000	15,450	260,000	123,416
2009	225,000	97,900	40,000	13,150	265,000	111,050
2010	160,000	87,483	45,000	10,850	205,000	98,333
2011	160,000	80,063	45,000	8,200	205,000	88,263
2012-2016	815,000	280,840	95,000	8,450	910,000	289,290
2017-2021	620,000	102,761	-	-	620,000	102,761
Total	\$ 2,410,000	874,459	300,000	73,600	2,710,000	948,059

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. The loan bears interest at 3% per annum. The final loan payment was made on January 2, 2006.

Lease-Purchase Agreements

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, 2006, \$14,686, including interest, was paid under this agreement. The principal balance at June 30, 2006 was \$26,814.

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, 2006, \$2,616, including interest, was paid under this agreement. The principal balance at June 30, 2006 was \$2,432.

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, 2006:

Year Ending June 30,	Ambulance	Telephone System	Total
2007	\$ 14,686	2,616	17,302
2008	14,686	-	14,686
Total payments	29,372	2,616	31,988
Less amount representing interest	(2,558)	(184)	(2,742)
Present value of net minimum payments	\$ 26,814	2,432	29,246

Bank Loans

On November 3, 2003, the City entered into a loan agreement with Peoples National Bank totaling \$24,787, at 2.75% per annum interest, to be used for the purchase of a sewer jet machine. During the year ended June 30, 2006, the final payment of \$12,955, including interest, was paid under this agreement.

On August 30, 2005, the City entered into a loan agreement with Peoples National Bank totaling \$8,330, at 4.00% per annum interest, to be used for the purchase of a Ford Ranger. The unpaid principal balance at June 30, 2006 was \$8,330.

On January 24, 2006, the City entered into a loan agreement with Peoples National Bank totaling \$13,010, at 4.00% per annum interest, to be used for the purchase of a police cruiser. The loan will be repaid by the City in eleven equal monthly installments of \$1,108 beginning February 24, 2006. During the year ended June 30, 2006, \$5,540, including interest, was paid. The balance at June 30, 2006 was \$7,652.

(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. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$66,685, \$61,507 and \$50,022, 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 payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 30,000
Sick leave	40,000
Compensatory time	<u>6,000</u>
Total	<u>\$ 76,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

(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 \$ 73,930.

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 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 another insurer for coverage associated with workmans compensation. 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) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Tax Increment Financing	\$ 15,000
	Enterprise:	
	Water	10,000
	Sewer	10,000
Special Revenue:		
InfoUSA CEBA Grant	General	9,000
Enterprise:	Special Revenue:	
Golf Course	Emergency	24,000
Storm Water	Enterprise:	
	Water	24,250
	Sewer	24,250
Total		<u>\$ 116,500</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 \$38,485 at June 30, 2006. The deficit balance will be eliminated through future tax increment financing collections.

The Capital Projects Fund had a deficit balance of \$19,769 at June 30, 2006. The deficit balance will be eliminated through transfers from other city funds.

The Enterprise, Golf Course Fund had a deficit balance of \$26,408 at June 30, 2006. The City plans to eliminate the deficit through collection of an emergency tax levy.

(9) Development and Rebate Agreements

The City entered into two separate development and rebate agreement during the years ended June 30, 2000 and June 30, 2004 to assist in urban renewal projects. 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 plans.

In accordance with the fiscal year 2000 development and rebate agreement, the incremental tax 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 property tax on the completed value of the improvements is first paid. The total amount rebated is not to exceed the actual cost of the public improvement paid for by the developer. Of the amount collected, 57% is to be paid to the developer and 43% is to be used for the development of low and moderate income housing projects. During the year ended June 30, 2006, the City paid the developer \$278,782 and paid \$56,304 for low to moderate income housing projects from the tax increment financing received.

In accordance with the fiscal year 2004 development and rebate agreement, the incremental tax to be received by the City under Chapter 403.10 of the Code of Iowa from the developers will be rebated for a period of fifteen years beginning with the tax year in which property tax on the completed value of the improvements is first paid. The total amount rebated each year shall represent 50% of the incremental property tax received by the City, not to exceed 18% of the total projected costs up to \$360,000. The City collected tax increment financing to be rebated to these developers, but the rebate payments to the developers are pending the submission of project cost documentation

No bonds or notes were issued for these projects.

(10) Community Economic Betterment Account (CEBA) Loan

On October 14, 2004, the City received \$455,000 from the Iowa Department of Economic Development (Department) to promote and assist economic growth through the development and expansion of the municipal and county tax base. In accordance with the agreement, the City loaned \$455,000 to a qualified business. The loan consists of a \$297,000 forgivable loan and a \$158,000 interest-free conventional loan. Repayment of the conventional loan is to be made in monthly payments of \$2,633, with the first payment due January 1, 2005 to the Department. Terms of the forgivable loan are based on the creation and retention of jobs by the qualified business. Repayments on the loan are made directly to the Department from the qualified business. Therefore, the liability for this loan is not included in the Statement of Indebtedness (Schedule 3). The loan balance at June 30, 2006 was \$110,600.

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, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 1,289,066	-	1,289,066
Tax increment financing	376,635	-	376,635
Other city tax	497,691	202,139	699,830
Licenses and permits	46,467	-	46,467
Use of money and property	61,782	2,042	63,824
Intergovernmental	438,881	-	438,881
Charges for service	49,911	1,066,097	1,116,008
Special assessments	536	-	536
Miscellaneous	109,978	12,556	122,534
Total receipts	<u>2,870,947</u>	<u>1,282,834</u>	<u>4,153,781</u>
Disbursements:			
Public safety	872,856	-	872,856
Public works	319,333	-	319,333
Health and social services	980	-	980
Culture and recreation	588,453	-	588,453
Community and economic development	-	-	-
General government	265,849	-	265,849
Debt service	339,194	-	339,194
Capital projects	301,409	-	301,409
Business type activities	-	834,931	834,931
Total disbursements	<u>2,688,074</u>	<u>834,931</u>	<u>3,523,005</u>
Excess of receipts over disbursements	182,873	447,903	630,776
Other financing sources, net	17,340	597,200	614,540
Excess of receipts and other financing sources over disbursements and other financing uses	200,213	1,045,103	1,245,316
Balances beginning of year	467,694	833,081	1,300,775
Balances end of year	<u>\$ 667,907</u>	<u>1,878,184</u>	<u>2,546,091</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total Variance
1,322,081	1,320,081	(31,015)
346,809	346,809	29,826
613,267	613,267	86,563
53,800	54,500	(8,033)
31,950	44,450	19,374
435,996	422,400	16,481
934,300	955,916	160,092
-	-	536
64,900	78,672	43,862
<u>3,803,103</u>	<u>3,836,095</u>	<u>317,686</u>
877,010	888,761	15,905
353,228	366,087	46,754
1,500	1,500	520
570,699	608,361	19,908
9,000	9,000	9,000
284,687	283,977	18,128
337,193	337,193	(2,001)
138,460	415,154	113,745
869,573	901,055	66,124
<u>3,441,350</u>	<u>3,811,088</u>	<u>288,083</u>
361,753	25,007	605,769
-	-	614,540
361,753	25,007	1,220,309
966,592	1,300,775	-
<u>1,328,345</u>	<u>1,325,782</u>	<u>1,220,309</u>

City of Carter 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. 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 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 \$369,738. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the debt service function.

Other Supplementary Information

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, 2006

	Special Revenue			
	Emergency	Employees' Retirement	Police Forfeiture	InfoUSA CEBA Grant
Receipts:				
Property tax	\$ 22,317	241,962	-	-
Charges for service	-	-	4,773	-
Total receipts	22,317	241,962	4,773	-
Disbursements:				
Operating:				
Public safety	-	150,022	1,253	-
Culture and recreation	-	53,756	-	-
General government	-	23,921	-	-
Total disbursements	-	227,699	1,253	-
Excess of receipts over disbursements	22,317	14,263	3,520	-
Other financing sources (uses):				
Operating transfers in (out)	(24,000)	-	-	9,000
Net change in cash balances	(1,683)	14,263	3,520	9,000
Cash balances beginning of year	946	54,697	1	2,172
Cash balances end of year	\$ (737)	68,960	3,521	11,172
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ (737)	68,960	3,521	11,172
Capital projects fund	-	-	-	-
Total cash basis fund balances	\$ (737)	68,960	3,521	11,172

See accompanying independent auditor's report.

Capital Projects	Total
-	264,279
-	4,773
-	269,052
-	151,275
-	53,756
-	23,921
-	228,952
-	40,100
-	(15,000)
-	25,100
(19,769)	38,047
(19,769)	63,147
-	82,916
(19,769)	(19,769)
(19,769)	63,147

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
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
Capital loan	Jun 1, 2006	3.75-4.30	600,000
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:			
Ambulance	Jan 5, 2001	6.295%	\$ 81,130
Telephone system	Jul 5, 2002	13.68	9,437
Total			
Bank loan:			
Sewer jet machine	Nov 3, 2003	2.75%	\$ 24,787
Park department truck	Aug 30, 2005	4.00	8,330
Police cruiser	Jan 24, 2006	4.00	13,010
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
30,000	-	30,000	-	1,965
280,000	-	65,000	215,000	13,226
525,000	-	35,000	490,000	28,210
1,155,000	-	50,000	1,105,000	59,243
-	600,000	-	600,000	-
\$ 1,990,000	600,000	180,000	2,410,000	102,644
140,000	-	15,000	125,000	9,800
195,000	-	20,000	175,000	9,750
\$ 335,000	-	35,000	300,000	19,550
7,096	-	7,096	-	213
39,042	-	12,228	26,814	2,458
4,555	-	2,123	2,432	493
\$ 43,597	-	14,351	29,246	2,951
12,600	-	12,600	-	355
-	8,330	-	8,330	-
-	13,010	5,358	7,652	182
\$ 12,600	21,340	17,958	15,982	537

Schedule 3

City of Carter Lake

Note Maturities

June 30, 2006

General Obligation Notes									
Year Ending June 30,	Capital Loan Notes Issued Jun 1, 1999		Capital Loan Notes Issued Dec 1, 2000		Capital Loan Notes Issued May 1, 2001		Capital Loan Notes Issued Jun 1, 2006		Total
	Interest		Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2007	4.50%	\$ 70,000	5.05%	\$ 35,000	5.00%	\$ 50,000	3.75%	\$ 55,000	210,000
2008	4.60	70,000	5.10	35,000	5.00	55,000	3.85	60,000	220,000
2009	4.70	75,000	5.15	35,000	5.00	55,000	3.90	60,000	225,000
2010	-	-	5.20	35,000	5.00	60,000	4.00	65,000	160,000
2011	-	-	5.25	35,000	5.00	60,000	4.05	65,000	160,000
2012	-	-	5.30	35,000	5.00	65,000	4.10	70,000	170,000
2013	-	-	5.35	35,000	5.00	65,000	4.15	70,000	170,000
2014	-	-	5.40	35,000	5.05	70,000	4.25	75,000	180,000
2015	-	-	5.45	35,000	5.10	70,000	4.30	80,000	185,000
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		\$ 215,000		\$ 490,000		\$ 1,105,000		\$ 600,000	2,410,000

Urban Renewal Tax Increment Financing Revenue Notes					
Year Ending June 30,	Capital Loan Notes Issued Feb 1, 1999		Capital Loan Notes Issued Feb 1, 1999		Total
	Interest		Interest		
	Rates	Amount	Rates	Amount	
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		\$ 125,000		\$ 175,000	\$ 300,000

See accompanying independent auditor's report.

City of Carter Lake
 Schedule of Receipts by Source and
 Disbursements By Function – All Governmental Fund Types
 For the Last Four Years

	2006	2005	2004	2003
Receipts:				
Property tax	\$ 1,289,066	1,189,795	1,149,542	1,046,559
Tax increment financing	376,635	212,667	184,343	27,585
Other city tax	497,691	428,365	382,467	380,556
Licenses and permits	46,467	62,104	100,410	32,149
Use of money and property	61,782	34,574	31,856	34,355
Intergovernmental	438,881	912,363	423,941	402,198
Charges for service	49,911	45,666	28,979	10,086
Special assessments	536	3,338	4,956	7,158
Miscellaneous	109,978	95,589	85,717	93,012
Total	\$ 2,870,947	2,984,461	2,392,211	2,033,658
Disbursements:				
Operating:				
Public safety	\$ 872,856	802,853	633,691	699,532
Public works	319,333	302,872	370,813	329,723
Health and social services	980	1,350	-	85
Culture and recreation	588,453	534,046	588,998	534,420
Community and economic development	-	461,828	-	-
General government	265,849	276,834	263,233	183,444
Debt service	339,194	350,693	506,599	465,144
Capital projects	301,409	-	71,806	446,888
Total	\$ 2,688,074	2,730,476	2,435,140	2,659,236

See accompanying independent auditor's report.

City of Carter Lake

**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**

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

Telephone (515) 281-5834 Facsimile (515) 242-6134

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 Carter Lake, Iowa, 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 July 27, 2006. Our report expressed an unqualified opinion 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 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 of Carter Lake'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 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 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 item (B) is a material weakness.

Compliance and Other Matters

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 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.

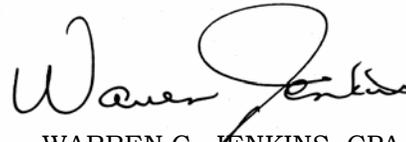
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions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

July 27, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

- (A) 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.
- 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 realize that this is an issue we need to address and will develop these policies.

Conclusion – Response accepted.

- (B) 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 Department and money is not always deposited timely.

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 deposited and should be reviewed for propriety.

Response – This has been brought to the Council’s attention and they are content with the situation as is.

Conclusion – Response acknowledged. The City should request a reconciliation as part of the internal control over Park and Recreation Department collections.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Carter 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 amount budgeted in the debt service function. 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 sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will budget adequate 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 – No business transactions between the City and City officials or employees were noted.
- (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.
- (7) 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.
- (8) Revenue Notes – The City has established the sinking and reserve accounts required by the urban renewal tax increment financing revenue note resolutions.
- (9) Financial Condition – The City had deficit balances as follows:

Fund	Balance	
	June 30, 2006	June 30, 2005
Special Revenue:		
Tax Increment Financing	\$ (38,485)	(44,341)
Capital Projects	(19,769)	(19,769)
Enterprise:		
Golf Course	(26,408)	(50,408)

City of Carter Lake

Schedule of Findings

Year ended June 30, 2006

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.

Response – The deficits will work themselves out over time with receipt of TIF collections, the emergency fund levy and transfers from other funds.

Conclusion – Response accepted.

- (10) Excessive Insurance Levy – The City levies property tax to pay for tort liability insurance premiums in the General Fund. For the year ended June 30, 2006, the City collected \$85,892 from this levy and paid \$59,389 for tort liability insurance, leaving a balance of \$26,503 in excess taxes levied.

Recommendation – The City should reduce the tax rate for insurance to make up for this excess levy in the future.

Response – We will review this and adjust the levy if necessary.

Conclusion – Response accepted.

- (11) Tax Increment Financing (TIF) – The City receives incremental property tax to aid economic development in Carter Lake Urban Renewal Area IV. In accordance with the development agreement, payments to developers shall be in an amount which represents 50% of the incremental property tax received by the City. The development agreement does not address the disposition of the remaining 50%. During fiscal year 2006, the City transferred \$15,000 to the General Fund for property tax relief.

Recommendation – Chapter 403 of the Code of Iowa provides TIF funds may only be spent in accordance with the original purpose of the TIF plan within the designated urban renewal area. The City's expenditures for economic development must be consistent with the City's TIF plan within the City's designated urban renewal area. The City should maintain documentation to demonstrate compliance with the receipt and related expenditure requirements for TIF revenues.

The City should consult legal counsel to determine the disposition of this issue, including corrective transfer and whether the City needs to amend the development agreement. TIF revenue may not be used for property tax relief or to supplement the General Fund

Response – The City of Carter Lake has recently sought legal counsel on this issue. We will address your recommendation in the current fiscal year.

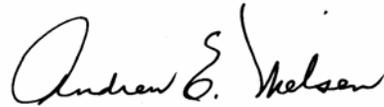
Conclusion – Response accepted.

City of Carter Lake

Staff

This audit was performed by:

Suzanne R. Hanft, CPA, Manager
Paul F. Kearney, CGFM, Senior Auditor
Melissa M. Wellhausen, CPA, Staff Auditor
Michael R. Field, 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 'N'.

Andrew E. Nielsen, CPA
Deputy Auditor of State