



**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

February 3, 2010

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 \$9,802,789 for the year ended June 30, 2009, a 98 percent increase over 2008. The receipts included \$1,891,794 in property and other city tax, \$666,705 from tax increment financing, \$396,971 from local option sales tax, \$1,106,789 from charges for service, \$533,503 from operating grants, contributions and restricted interest, \$91,194 from capital grants, contributions and restricted interest, \$4,997,624 from bond and note proceeds, and \$118,209 from other general receipts.

Disbursements for the year totaled \$9,264,126, a 78 percent increase over the prior year, and included \$3,198,281 for capital projects, \$1,020,330 for public safety and \$788,197 for culture and recreation. Also, disbursements for business type activities totaled \$766,048.

The significant increase in receipts and disbursements was due primarily to the receipt of bond proceeds used for construction of a new City Hall and note proceeds for the refunding of \$1,550,000 of notes.

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/index.html>.

###



**CITY OF CARTER LAKE**

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

**JUNE 30, 2009**

## Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	18
Notes to Financial Statements		19-26
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		28-29
Notes to Required Supplementary Information – Budgetary Reporting		30
Other Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	32-33
Schedule of Indebtedness	2	34-35
Bond and Note Maturities	3	36-37
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4	38-39
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 <u>Government Auditing Standards</u>		43-44
Schedule of Findings		45-48
Staff		49

**City of Carter Lake**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Russell Kramer	Mayor	Jan 2010
Tim Parker	Council Member	Jan 2010
Steve Wilbur	Council Member	Jan 2010
Edward Aldmeyer	Council Member	Jan 2012
Joseph Anderson	Council Member	Jan 2012
Ronald Cumberledge	Council Member	Jan 2012
Doreen Mowery	Clerk/Treasurer	Indefinite
Lisa Ruehle	Deputy Clerk	Indefinite
Joe Thornton	Attorney	Indefinite

**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

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, 2009, 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.

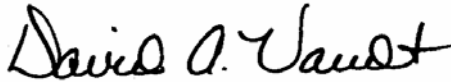
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

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, 2009, 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 January 6, 2010 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 have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of 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 eight years ended June 30, 2008 (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

January 6, 2010



---

## **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, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2009 FINANCIAL HIGHLIGHTS**

- The City's total receipts for governmental activities increased 132%, or approximately \$5,042,000, from fiscal year 2008 to 2009. Bond proceeds totaling \$3,448,000 and refunding note proceeds of \$1,550,000 were received in fiscal year 2009. The total cost of all governmental activities programs and services increased 95%, or approximately \$4,135,000. The increase in disbursements was the result of additional funds being spent for the building of a new City Hall and refunding \$1,550,000 of capital loan notes.
- The City decreased property tax rates for 2009 an average of 1%. The City's budgeted property tax receipts increased approximately \$14,000 in 2009. Property tax rates for 2010 were decreased \$0.25 per \$1,000 of taxable valuation. Fluctuations in tax rates depend heavily on insurance rates and premiums. As a result, property tax receipts are budgeted to decrease \$14,000 next year.
- The cost of all governmental activities this year was approximately \$8.498 million compared to approximately \$4.363 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 approximately \$6.16 million because some of the cost was paid by those directly benefited from the programs (\$162,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$625,000).

### **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 and the City's indebtedness.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and 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 and garbage 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 three Enterprise Funds to provide separate information for the Water, Sewer and Garbage Funds, which 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 \$1,393,198 to \$1,103,128. 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,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service	\$ 162	142
Operating grants, contributions and restricted interest	534	693
Capital grants, contributions and restricted interest	91	240
General receipts:		
Property tax	1,388	1,350
Tax increment financing	667	560
Local option sales tax	397	169
Other city tax	504	510
Grants and contributions not restricted	23	26
Unrestricted interest on investments	18	57
Bond proceeds	3,448	-
Refunding note proceeds	1,550	-
Other general receipts	76	69
Total receipts	<u>8,858</u>	<u>3,816</u>
Disbursements:		
Public safety	1,020	1,097
Public works	487	516
Health and social services	15	10
Culture and recreation	788	801
Community and economic development	528	579
General government	303	324
Debt service	609	386
Capital projects	3,198	650
Notes refunded	1,550	-
Total disbursements	<u>8,498</u>	<u>4,363</u>
Change in cash basis net assets before transfers	360	(547)
Transfers, net	(650)	532
Change in cash basis net assets	(290)	(15)
Cash basis net assets beginning of year	<u>1,393</u>	<u>1,408</u>
Cash basis net assets end of year	<u>\$ 1,103</u>	<u>1,393</u>

Total governmental activities receipts for the fiscal year were approximately \$8.858 million compared to approximately \$3.816 million last year. This increase was due primarily to the receipt of bond and refunding note proceeds for the building of a new City Hall and to refund certain outstanding capital loan notes.

The cost of all governmental activities this year was approximately \$8.498 million compared to approximately \$4.363 million last year. This increase was due primarily to the building of a new City Hall and refunding certain outstanding capital loan notes.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 386	420
Sewer	382	368
Garbage	170	172
Miscellaneous	7	-
General receipts:		
Local option sales tax	-	169
Total receipts	<u>945</u>	<u>1,129</u>
Disbursements:		
Water	385	389
Sewer	252	321
Garbage	129	122
Total disbursements	<u>766</u>	<u>832</u>
Change in cash basis net assets before transfers	179	297
Transfers, net	<u>650</u>	<u>(532)</u>
Change in cash basis net assets	829	(235)
Cash basis net assets beginning of year	<u>898</u>	<u>1,133</u>
Cash basis net assets end of year	<u>\$ 1,727</u>	<u>898</u>

Total business type activities charges for service receipts for the fiscal year were \$937,658 compared to \$953,061 last year. This decrease was due primarily to the timing of water utility billings and collections. The overall increase in cash basis net assets at year end is due primarily to the receipt of \$650,000 of bond proceeds to repay internal loans made in prior years.

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

As the City of Carter Lake completed the year, its governmental funds reported a combined fund balance of approximately \$1,103,000, a decrease of approximately \$290,000 from last year's total of approximately \$1,393,000. 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 \$95,068 over the prior year to \$697,530. This increase is attributed to less being spent in the public safety function than was budgeted.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$173,977 to \$112,362. This decrease is attributed to a decrease in collections for other city tax. The local option sales tax funds will be used to retire revenue bond debt issued for City Hall.
- The Special Revenue, Employees' Retirement Fund cash balance decreased \$18,672 to \$119,499. This decrease is attributed to insurance premium increases which required the use of excessive cash balance.
- The Special Revenue, Tax Increment Financing Fund cash balance increased \$121,960 to a balance of \$357,005. This increase is attributed to an increase in property tax collections during the fiscal year.

- The Debt Service Fund cash balance increased \$234,739 to a balance of \$290,132. This increase is attributed to the collection of local option sales tax in this fund during the fiscal year which will be used to pay the principal and interest on the local option sales tax revenue bonds.
- The Capital Projects Fund cash balance decreased \$560,029 to (\$541,764). This decrease was due to the repayment of money to the Enterprise, Water and Enterprise, Garbage Funds.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased \$332,389 to \$690,365, due primarily to a transfer of \$325,000 from the City Hall bond proceeds to pay back an internal loan made during the prior year.
- The Sewer Fund cash balance increased \$130,423 to \$682,496, due primarily to an increase in both residential and commercial sewer rates.
- The Garbage Fund cash balance increased \$365,921 to \$354,085, due primarily to a transfer of \$325,000 from the City Hall bond proceeds to repay a prior year internal loan.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on March 9, 2009 and resulted in a net increase of \$3,704,557 in disbursements. The increase was primarily for capital projects.

The City’s receipts were \$119,350 less than budgeted. This variance was not significant.

With the amendment, total disbursements were \$647,465 less than the amended budget. The actual disbursements for the public safety, community and economic development and capital projects functions were \$120,894, \$85,972 and \$228,510, respectively, less than the amended budget. The public safety function was under budget because actual disbursements were decreased due to a change in the 911 contract and the terminal illness of a police officer. The community and economic development function was under budget because of the timing of payments for TIF rebate agreements. The capital projects function was under budget because all of the disbursements for the City Hall project did not occur or get paid during FY09.

**DEBT ADMINISTRATION**

At June 30, 2009, the City had approximately \$5,485,000 in notes and other long-term debt outstanding, compared to approximately \$2,231,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2009	2008
General obligation notes	\$ 1,880	1,980
Urban renewal tax increment financing revenue notes	80	225
Local option sales tax revenue bonds	3,525	-
Lease purchase agreements	-	26
Total	\$ 5,485	2,231

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 \$5,485,000 is significantly below its constitutional debt limit of approximately \$9.96 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 BUDGET AND RATES**

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 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. Additionally, funding from other sources has become stagnant due to poor economic conditions.

These factors were taken into account when adopting the budget for fiscal year 2010. Amounts available for appropriation in the operating budget are approximately \$5.489 million, a decrease of 40% from the final 2009 budget. This decrease is due to the 2009 bond issue for the construction of City Hall. Budgeted disbursements are expected to decrease approximately \$3.8 million. The decrease is due to the City Hall project being substantially completed in fiscal year 2009. Since the 2010 budget was adopted, the City anticipates the Locust St. Streetscape project will be bid in December 2009. Construction on the project should begin in April 2010. An amendment to the original adopted budget will be needed to cover those disbursements. The City has added no other new major programs or initiatives to the 2009 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$78,000 by the close of 2010.

### **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, 2009

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 1,020,330	101,140	82,807	-
Public works	486,637	-	269,486	4,327
Health and social services	14,522	-	-	-
Culture and recreation	788,197	50,698	130,457	-
Community and economic development	527,756	-	19,106	-
General government	302,792	10,170	31,647	-
Debt service	609,563	-	-	-
Capital projects	3,198,281	-	-	86,867
Total governmental activities	6,948,078	162,008	533,503	91,194
Business type activities:				
Water	384,967	392,356	-	-
Sewer	251,823	382,246	-	-
Garbage	129,258	170,179	-	-
Total business type activities	766,048	944,781	-	-
Total	\$ 7,714,126	1,106,789	533,503	91,194

**General Receipts:**

Property tax levied for:
General purposes
Debt service
Tax increment financing
Local option sales tax
Other city tax
Grants and contributions not restricted
Unrestricted interest on investments
Bond proceeds, net of \$147,454 discount
General obligation refunding note proceeds, net of \$29,922 discount and fees
Notes refunded
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
Debt service
Tax increment financing
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
(836,383)	-	(836,383)
(212,824)	-	(212,824)
(14,522)	-	(14,522)
(607,042)	-	(607,042)
(508,650)	-	(508,650)
(260,975)	-	(260,975)
(609,563)	-	(609,563)
(3,111,414)	-	(3,111,414)
(6,161,373)	-	(6,161,373)
-	7,389	7,389
-	130,423	130,423
-	40,921	40,921
-	178,733	178,733
(6,161,373)	178,733	(5,982,640)
1,136,944	-	1,136,944
251,330	-	251,330
666,705	-	666,705
396,971	-	396,971
503,520	-	503,520
23,362	-	23,362
18,338	-	18,338
3,432,546	-	3,432,546
1,565,078	-	1,565,078
(1,550,000)	-	(1,550,000)
76,509	-	76,509
(650,000)	650,000	-
5,871,303	650,000	6,521,303
(290,070)	828,733	538,663
1,393,198	898,213	2,291,411
\$ 1,103,128	1,726,946	2,830,074
\$ 112,362	-	112,362
290,132	-	290,132
357,005	-	357,005
187,863	-	187,863
155,766	1,726,946	1,882,712
\$ 1,103,128	1,726,946	2,830,074

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, 2009

	Special Revenue			
	General	Road Use Tax	Employees' Retirement	Tax Increment Financing
Receipts:				
Property tax	\$ 879,141	-	216,503	-
Tax increment financing	-	-	-	666,705
Other city tax	572,629	42,282	2,723	-
Licenses and permits	44,228	-	-	-
Use of money and property	45,923	-	-	-
Intergovernmental	177,993	269,486	-	-
Charges for service	99,001	-	-	-
Special assessments	17,121	-	-	-
Miscellaneous	128,192	-	-	23,362
Total receipts	1,964,228	311,768	219,226	690,067
Disbursements:				
Operating:				
Public safety	848,030	-	145,243	-
Public works	892	485,745	-	-
Health and social services	14,522	-	-	-
Culture and recreation	724,479	-	63,718	-
Community and economic development	34,725	-	-	493,031
General government	273,855	-	28,937	-
Debt service	-	-	-	50,076
Capital projects	-	-	-	-
Total disbursements	1,896,503	485,745	237,898	543,107
Excess (deficiency) of receipts over (under) disbursements	67,725	(173,977)	(18,672)	146,960
Other financing sources (uses):				
Bond proceeds, net of \$147,454 discount	-	-	-	-
General obligation refunding note proceeds, net of \$29,922 discount and fees	15,078	-	-	-
Notes refunded	-	-	-	-
Operating transfers in	36,265	-	-	-
Operating transfers out	(24,000)	-	-	(25,000)
Total other financing sources (uses)	27,343	-	-	(25,000)
Net change in cash balances	95,068	(173,977)	(18,672)	121,960
Cash balances beginning of year	602,462	286,339	138,171	235,045
Cash balances end of year	\$ 697,530	112,362	119,499	357,005
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ -	-	-	-
Unreserved:				
General fund	697,530	-	-	-
Special revenue funds	-	112,362	119,499	357,005
Capital projects fund	-	-	-	-
Total cash basis fund balances	\$ 697,530	112,362	119,499	357,005

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
248,700	-	27,053	1,371,397
-	-	-	666,705
299,391	-	343	917,368
-	-	-	44,228
-	46,049	525	92,497
-	21,696	-	469,175
-	-	-	99,001
-	-	-	17,121
-	2,001	29,337	182,892
548,091	69,746	57,258	3,860,384
-	-	27,057	1,020,330
-	-	-	486,637
-	-	-	14,522
-	-	-	788,197
-	-	-	527,756
-	-	-	302,792
559,487	-	-	609,563
-	3,198,281	-	3,198,281
559,487	3,198,281	27,057	6,948,078
(11,396)	(3,128,535)	30,201	(3,087,694)
245,775	3,186,771	-	3,432,546
1,550,000	-	-	1,565,078
(1,550,000)	-	-	(1,550,000)
-	31,735	9,000	77,000
-	(650,000)	(28,000)	(727,000)
245,775	2,568,506	(19,000)	2,797,624
234,379	(560,029)	11,201	(290,070)
55,753	18,265	57,163	1,393,198
290,132	(541,764)	68,364	1,103,128
290,132	-	-	290,132
-	-	-	697,530
-	-	68,364	657,230
-	(541,764)	-	(541,764)
290,132	(541,764)	68,364	1,103,128

**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, 2009

	Enterprise			Total
	Water	Sewer	Garbage	
Operating receipts:				
Charges for service	\$ 385,233	382,246	170,179	937,658
Miscellaneous	7,123	-	-	7,123
Total operating receipts	392,356	382,246	170,179	944,781
Operating disbursements:				
Business type activities:				
Operations	384,967	251,823	129,258	766,048
Excess of operating receipts over operating disbursements	7,389	130,423	40,921	178,733
Other financing sources:				
Transfers in	325,000	-	325,000	650,000
Net change in cash balances	332,389	130,423	365,921	828,733
Cash balances beginning of year	357,976	552,073	(11,836)	898,213
Cash balances end of year	\$ 690,365	682,496	354,085	1,726,946
<b>Cash Basis Fund Balances</b>				
Unreserved	\$ 690,365	682,496	354,085	1,726,946

See notes to financial statements.

City of Carter Lake

Notes to Financial Statements

June 30, 2009

**(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.

These financial statements present the City (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationships with the City.

Blended Component Unit – The Carter Lake Smoke Eaters is legally separate from the City but is so intertwined with the City that it is, in substance, the same as the City. It is reported as part of the City and blended into the Special Revenue Funds.

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 the collection and use of tax for insurance benefits.

The Tax Increment Financing Fund is used to account for urban renewal tax increment financing collections and the repayment of tax increment financing indebtedness.

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those financed through proprietary funds.

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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus. When program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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, 2009, disbursements exceeded the amounts budgeted in the health and social services and the capital projects functions before the budget was amended.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2009 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, Bonds and Other Financing Arrangements Payable**

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

Year Ending June 30,	General Obligation Notes		Urban Renewal Tax Increment Financing Revenue Notes		Local Option Sales Tax Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 200,000	76,661	20,000	5,600	45,000	177,688	265,000	259,949
2011	195,000	69,673	20,000	4,200	45,000	175,888	260,000	249,761
2012	205,000	62,490	20,000	2,800	50,000	174,088	275,000	239,378
2013	180,000	54,557	20,000	1,400	50,000	172,088	250,000	228,045
2014	185,000	47,253	-	-	55,000	169,963	240,000	217,216
2015-2019	660,000	137,367	-	-	390,000	806,568	1,050,000	943,935
2020-2024	255,000	17,820	-	-	525,000	701,162	780,000	718,982
2025-2029	-	-	-	-	660,000	557,993	660,000	557,993
2030-2034	-	-	-	-	850,000	368,137	850,000	368,137
2035-2038	-	-	-	-	855,000	119,187	855,000	119,187
<b>Total</b>	<b>\$1,880,000</b>	<b>465,821</b>	<b>80,000</b>	<b>14,000</b>	<b>3,525,000</b>	<b>3,422,762</b>	<b>5,485,000</b>	<b>3,902,583</b>

Urban Renewal Tax Increment Financing Revenue Notes

The urban renewal tax increment financing (TIF) 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 Special Revenue, Tax Increment Financing Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100% of the debt service requirements over the life of the notes. 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.



### Local Option Sales Tax Revenue Bonds

In July 2008, the City issued local option sales tax revenue bonds for the purpose of constructing a new City Hall. Local option sales tax receipts are generally projected to produce 100% of the debt service requirements over the life of the bonds. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. The resolution providing for the issuance of the revenue bonds includes a provision which requires sufficient transfers shall be made to a separate bond reserve account to cover the maximum annual amount of principal and interest coming due.

### Lease-Purchase Agreement

On September 10, 2007, the City entered into a lease-purchase agreement to purchase a backhoe. The total cost was \$79,938, which included a trade-in allowance of \$18,500. The agreement was interest free. During the year ended June 30, 2009, the final payment of \$26,438 was paid under this agreement.

### General Obligation Refunding Notes

In July 2008, the City issued \$540,000 of general obligation refunding capital loan notes, Series 2008A. The City entered into an escrow agreement with Bankers Trust Company, N.A., and deposited the proceeds from the refunding notes. The notes were issued to refund the outstanding balance of \$420,000 of the \$865,000 of general obligation capital loan note, issued December 1, 2000, and to refund the outstanding balance of \$130,000 of the \$250,000 of urban renewal tax increment financing revenue notes, issued February 1, 1999.

### General Obligation Advance Refunding Notes

In July 2008, the City issued \$1,055,000 of general obligation advance refunding capital loan notes, Series 2008B. The City entered into an escrow agreement with Bankers Trust Company, N.A., and deposited the proceeds from the refunding notes. The notes were issued to advance refund the outstanding balance of \$1,000,000 of the \$1,200,000 of general obligation capital loan notes, issued May 1, 2001.

The City obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$55,086 between the two refundings.

## **(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 4.10% of their annual covered salary and the City is required to contribute 6.35% 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, 2009, 2008 and 2007 were \$78,097, \$72,956 and 71,174, 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, 2009, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 50,000
Sick leave	40,000
Compensatory time	<u>6,000</u>
Total	<u>\$ 96,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

**(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 577 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 200 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, 2009 were \$84,949.

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 \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 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, 2009, 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, 2009 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Emergency	\$ 28,000
	Tax Increment	
	Financing	8,265
Special Revenue: InfoUSA CEBA Grant	General	9,000
Capital Projects	General	15,000
	Special Revenue: Tax Increment	
	Financing	16,735
Enterprise: Water	Capital Projects	325,000
Enterprise: Garbage	Capital Projects	325,000
Total		<u>\$ 727,000</u>

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

**(8) Development and Rebate Agreements**

The City entered into three 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 tax 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 first fiscal year 2000 development and rebate agreement, the incremental tax to be received by the City under Chapter 403.19 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 improvements 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, 2009, the City paid the developer \$212,925 and paid \$157,976 for low to moderate income housing projects from the tax increment financing received.

In accordance with the second fiscal year 2000 development and rebate agreement, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of twelve years beginning with the tax year in which the property tax on the completed value of the improvements is first paid. During the year ended June 30, 2009, the City paid the developer \$105,155.

In accordance with the fiscal year 2004 development and rebate agreement, the incremental tax to be received by the City under Chapter 403.19 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. During the year ended June 30, 2009, the City paid the developer \$10,090.

No bonds or notes were issued for these projects.

**(9) 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 to the Department due January 1, 2005. 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 by the qualified business. Therefore, the liability for this loan is not included in the Schedule of Indebtedness (Schedule 2). The outstanding loan balance at June 30, 2009 was \$15,800.

**(10) Deficit Balance**

The Capital Projects Fund had a deficit balance of \$541,764 at June 30, 2009. The deficit balance was a result of transferring funds to the Enterprise, Water and the Enterprise, Garbage Funds. The deficit will be eliminated upon the receipt of future TIF collections.

**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, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 1,371,397	-	-
Tax increment financing	666,705	-	-
Other city tax	917,368	-	-
Licenses and permits	44,228	-	-
Use of money and property	92,497	-	525
Intergovernmental	469,175	-	-
Charges for service	99,001	937,658	-
Special assessments	17,121	-	-
Miscellaneous	182,892	7,123	29,337
Total receipts	3,860,384	944,781	29,862
Disbursements:			
Public safety	1,020,330	-	27,057
Public works	486,637	-	-
Health and social services	14,522	-	-
Culture and recreation	788,197	-	-
Community and economic development	527,756	-	-
General government	302,792	-	-
Debt service	609,563	-	-
Capital projects	3,198,281	-	-
Business type activities	-	766,048	-
Total disbursements	6,948,078	766,048	27,057
Excess (deficiency) of receipts over (under) disbursements	(3,087,694)	178,733	2,805
Other financing sources, net	2,797,624	650,000	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(290,070)	828,733	2,805
Balances beginning of year	1,393,198	898,213	24,366
Balances end of year	\$ 1,103,128	1,726,946	27,171

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
1,371,397	1,326,145	1,326,145	45,252
666,705	670,202	685,898	(19,193)
917,368	911,899	970,199	(52,831)
44,228	32,500	33,180	11,048
91,972	67,750	89,813	2,159
469,175	460,809	592,625	(123,450)
1,036,659	998,350	1,079,700	(43,041)
17,121	10,000	10,000	7,121
160,678	86,358	107,093	53,585
<u>4,775,303</u>	<u>4,564,013</u>	<u>4,894,653</u>	<u>(119,350)</u>
993,273	1,145,129	1,114,167	120,894
486,637	494,807	489,433	2,796
14,522	8,000	15,000	478
788,197	777,386	866,328	78,131
527,756	566,493	613,728	85,972
302,792	318,837	340,816	38,024
609,563	378,550	610,063	500
3,198,281	100,715	3,426,791	228,510
766,048	840,060	858,208	92,160
<u>7,687,069</u>	<u>4,629,977</u>	<u>8,334,534</u>	<u>647,465</u>
(2,911,766)	(65,964)	(3,439,881)	528,115
<u>3,447,624</u>	-	<u>3,432,546</u>	<u>15,078</u>
535,858	(65,964)	(7,335)	543,193
<u>2,267,045</u>	<u>2,190,526</u>	<u>2,267,045</u>	-
<u>2,802,903</u>	<u>2,124,562</u>	<u>2,259,710</u>	<u>543,193</u>

City of Carter Lake

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the 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 \$3,704,557. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements did not exceed the amounts budgeted. However, disbursements exceeded the amounts budgeted for the health and human services and capital projects functions prior to adoption of a budget amendment.



**Other Supplementary Information**

**City of Carter Lake**

## City of Carter Lake

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

As of and for the year ended June 30, 2009

	Special Revenue				Total
	Emergency	Police Forfeiture	InfoUSA CEBA Grant	Carter Lake Smoke Eaters	
Receipts:					
Property tax	\$ 27,053	-	-	-	27,053
Other city tax	343	-	-	-	343
Use of money and property	-	-	-	525	525
Miscellaneous	-	-	-	29,337	29,337
Total receipts	27,396	-	-	29,862	57,258
Disbursements:					
Operating:					
Public safety	-	-	-	27,057	27,057
Excess of receipts over disbursements	27,396	-	-	2,805	30,201
Other financing sources (uses):					
Operating transfers in	-	-	9,000	-	9,000
Operating transfers out	(28,000)	-	-	-	(28,000)
Total other financing sources (uses)	(28,000)	-	9,000	-	(19,000)
Net change in cash balances	(604)	-	9,000	2,805	11,201
Cash balances beginning of year	2,336	1,439	29,022	24,366	57,163
Cash balances end of year	\$ 1,732	1,439	38,022	27,171	68,364
<b>Cash Basis Fund Balances</b>					
Unreserved:					
Special revenue funds	\$ 1,732	1,439	38,022	27,171	68,364
Total cash basis fund balances	\$ 1,732	1,439	38,022	27,171	68,364

See accompanying independent auditor's report.

City of Carter Lake  
Schedule of Indebtedness  
Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
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
Capital loan refunding	Jul 1, 2008	3.00-3.75	540,000
Capital loan advance refunding	Jul 1, 2008	4.00-4.60	1,055,000
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			
Local option sales tax revenue bonds:			
Revenue bond	Jul 1, 2008	4.00-5.500%	\$ 3,580,000
Lease-purchase agreement:			
Backhoe	Sep 10, 2007	-	\$ 61,438

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
75,000	-	75,000	-	3,525
420,000	-	420,000	-	-
1,000,000	-	1,000,000	-	-
485,000	-	60,000	425,000	19,975
-	540,000	140,000	400,000	16,683
-	1,055,000	-	1,055,000	41,273
<b>\$ 1,980,000</b>	<b>1,595,000</b>	<b>1,695,000</b>	<b>1,880,000</b>	<b>81,456</b>
95,000	-	15,000	80,000	6,650
130,000	-	130,000	-	-
<b>\$ 225,000</b>	<b>-</b>	<b>145,000</b>	<b>80,000</b>	<b>6,650</b>
<b>\$ -</b>	<b>3,580,000</b>	<b>55,000</b>	<b>3,525,000</b>	<b>172,457</b>
<b>\$ 26,438</b>	<b>-</b>	<b>26,438</b>	<b>-</b>	<b>-</b>

City of Carter Lake  
Bond and Note Maturities  
June 30, 2009

Year Ending June 30,	General Obligation Notes							Total
	Capital Loan		Capital Loan Refunding		Capital Loan Advance Refunding			
	Issued Jun 1, 2006		Issued Jul 1, 2008		Issued Jul 1, 2008			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2010	5.00%	\$ 65,000	3.25%	\$ 135,000		\$ -	200,000	
2011	5.05	65,000	3.50	130,000		-	195,000	
2012	4.10	70,000	3.75	135,000		-	205,000	
2013	4.15	70,000		-	4.00%	110,000	180,000	
2014	4.25	75,000		-	4.00	110,000	185,000	
2015	4.30	80,000		-	4.00	110,000	190,000	
2016		-		-	4.25	115,000	115,000	
2017		-		-	4.25	115,000	115,000	
2018		-		-	4.30	120,000	120,000	
2019		-		-	4.40	120,000	120,000	
2020		-		-	4.50	120,000	120,000	
2021		-		-	4.60	135,000	135,000	
Total		<u>\$ 425,000</u>		<u>\$ 400,000</u>		<u>\$ 1,055,000</u>	<u>1,880,000</u>	

Year Ending June 30,	Urban Renewal Tax Increment Financing Revenue Notes	
	Capital Loan	
	Issued Feb 1, 1999	
Interest Rates	Amount	
2010	7.00% \$ 20,000	
2011	7.00 20,000	
2012	7.00 20,000	
2013	7.00 20,000	
Total	<u>\$ 80,000</u>	

See accompanying independent auditor's report.

Year Ending June 30,	Local Option Sales Tax Revenue Bonds	
	Issued Jul 1, 2008	
	Interest Rates	Amount
2010	4.000%	\$ 45,000
2011	4.000	45,000
2012	4.000	50,000
2013	4.250	50,000
2014	4.250	55,000
2015	4.375	55,000
2016	4.500	80,000
2017	4.500	80,000
2018	4.625	85,000
2019	4.08	90,000
2020	4.09	95,000
2021	4.10	100,000
2022	4.11	105,000
2023	4.12	110,000
2024	4.13	115,000
2025	4.14	120,000
2026	4.15	125,000
2027	4.16	130,000
2028	4.17	140,000
2029	4.18	145,000
2030	4.19	155,000
2031	4.20	160,000
2032	4.21	170,000
2033	4.22	180,000
2034	4.23	185,000
2035	4.24	195,000
2036	4.25	210,000
2037	4.26	220,000
2038	4.27	230,000
Total		<u>\$ 3,525,000</u>

City of Carter Lake  
 Schedule of Receipts by Source and  
 Disbursements By Function – All Governmental Fund Types

For the Last Nine Years

	2009	2008	2007	2006
Receipts:				
Property tax	\$ 1,371,397	1,338,413	1,481,188	1,289,066
Tax increment financing	666,705	560,164	572,962	376,635
Other city tax	917,368	690,569	711,146	497,691
Licenses and permits	44,228	38,214	41,134	46,467
Use of money and property	92,497	97,277	137,870	61,782
Intergovernmental	469,175	678,524	685,306	438,881
Charges for service	99,001	74,234	87,682	49,911
Special assessments	17,121	64,153	-	536
Miscellaneous	182,892	274,683	133,945	109,978
<b>Total</b>	<b>\$ 3,860,384</b>	<b>3,816,231</b>	<b>3,851,233</b>	<b>2,870,947</b>
Disbursements:				
Operating:				
Public safety	\$ 1,020,330	1,097,329	919,725	872,856
Public works	486,637	516,466	405,487	319,333
Health and social services	14,522	10,065	9,951	980
Culture and recreation	788,197	800,422	609,128	588,453
Community and economic development	462,331	578,678	-	-
General government	302,792	324,096	293,986	265,849
Debt service	674,988	385,815	421,965	339,194
Capital projects	3,198,281	650,395	1,559,200	301,409
<b>Total</b>	<b>\$ 6,948,078</b>	<b>4,363,266</b>	<b>4,219,442</b>	<b>2,688,074</b>

See accompanying independent auditor's report.



2005	2004	2003	2002	2001
1,189,795	1,149,542	1,046,559	1,276,677	1,241,000
212,667	184,343	27,585	95,832	81,320
428,365	382,467	380,556	-	-
62,104	100,410	32,149	16,254	15,982
34,574	31,856	34,355	113,075	94,280
912,363	423,941	402,198	495,575	412,310
45,666	28,979	10,086	110,417	97,300
3,338	4,956	7,158	62,792	63,411
95,589	85,717	93,012	31,296	20,517
<b>2,984,461</b>	<b>2,392,211</b>	<b>2,033,658</b>	<b>2,201,918</b>	<b>2,026,120</b>
802,853	633,691	699,532	387,210	380,300
302,872	370,813	329,723	514,922	500,616
1,350	-	85	99,300	97,311
534,046	588,998	534,420	78,253	75,244
461,828	-	-	11,941	11,829
276,834	263,233	183,444	296,714	298,411
350,693	506,599	465,144	252,111	247,200
-	71,806	446,888	130,030	108,500
<b>2,730,476</b>	<b>2,435,140</b>	<b>2,659,236</b>	<b>1,770,481</b>	<b>1,719,411</b>

**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, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 6, 2010. 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 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Carter Lake's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Carter Lake's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting we consider to be significant deficiencies, including a deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Carter Lake's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Carter Lake's financial statements that is more than inconsequential will not be prevented or detected by the City of Carter Lake's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Carter Lake's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item (A) is a material weakness.

#### Compliance and Other Matters

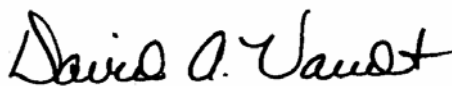
As part of obtaining reasonable assurance about whether the City of Carter Lake's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and 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, 2009 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.

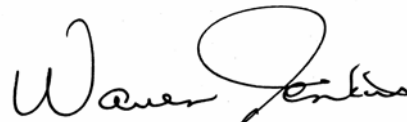
The City of Carter Lake's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Carter Lake's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of 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

January 6, 2010

City of Carter Lake

Schedule of Findings

Year ended June 30, 2009

**Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual opens the mail, prepares the initial listing, prepares the bank deposit and deposits the money for the City. The initial listing is not reviewed and compared with deposits by an independent person. In addition, the bank reconciliation is not prepared by someone independent of receipt and disbursements functions.

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

Response – After a review of our current job duties we have determined we can take some corrective actions to have better internal control. Effective immediately, the City Clerk will open all mail and prepare a list of checks and funds received daily. This listing will be initialed by the Clerk and submitted to the Deputy Clerk and the Clerk's Assistant. The Clerk's Assistant will continue to prepare the bank deposit and take the deposits to the bank. Due to the size of our office staff we will never be able to completely segregate duties. All three staff members must be able to open mail, issue receipts, and prepare and make bank deposits. The Mayor, Council, clerk and Clerk's Assistant all have duties related to the processing, review and issuance of disbursements. However, limited staffing does not allow for us to have someone independent of the process prepare the cash reconciliation. We will continue to depend on our review process.

Conclusion – Response accepted.

- (B) Computer-Based 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:

- A disaster recovery plan.
- A computer lockout function if passwords are incorrectly entered more than three times.

Computer data is backed up offsite. However, the data is not encrypted at the offsite location and IT staff at the offsite location has access to the City's data.

City of Carter Lake

Schedule of Findings

Year ended June 30, 2009

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

Response – A written policy was adopted by the Council at their September City Council meeting.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.



City of Carter Lake

Schedule of Findings

Year ended June 30, 2009

**Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2009 did not exceed the amounts budgeted. However, disbursements exceeded the amounts budgeted in the health and social services and capital projects functions prior to adoption of a budget amendment.

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

Response – Due to the high cost of preparing and publishing budget amendments we try to limit them to one per year. We realize periodically we exceed the amount budgeted prior to the budget amendment. However, normally this is only on capital projects which have had separate public hearings and council action.

Conclusion – Response acknowledged. The City should comply with Chapter 384.18 of the Code of Iowa.

- (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.

Minutes of one Council meeting were not properly signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with Chapter 380.7 of the Code of Iowa and ensure minutes are properly signed.

Response – These minutes have been tagged for signature and it was overlooked. They have since been signed.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of noncompliance with Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

City of Carter Lake

Schedule of Findings

Year ended June 30, 2009

- (8) Revenue Notes and Bonds – No instances of noncompliance with the revenue note and bond resolutions were noted.
- (9) Financial Condition – The Capital Projects Fund had a deficit balance of \$541,764 at June 30, 2009.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The deficit balance occurred due to the construction of City Hall. Budget projections for the project included a deficit of approximately \$815,000 to be covered with future TIF collections.

Conclusion – Response accepted.

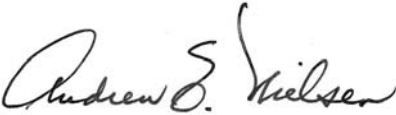
---

City of Carter Lake

Staff

This audit was performed by:

Joe T. Marturello, CIA, Manager  
Brian P. Schenkelberg, CPA, Staff Auditor  
Joshua A. Pronk, Assistant Auditor  
Daniel T. Schneider, Auditor Intern

  
Andrew E. Nielsen, CPA  
Deputy Auditor of State