



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

October 18, 2005

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 \$4,018,032 for the year ended June 30, 2005, an 18 percent increase from 2004. The receipts included \$1,666,970 in property and other city taxes, \$327,715 from local option sales tax, \$1,028,086 from charges for service, \$453,815 from operating grants, contributions and restricted interest, \$460,094 from capital grants, contributions and restricted interest and \$81,352 from other general receipts.

Disbursements for the year totaled \$3,451,478, a 12 percent increase from the prior year, and included \$802,853 for public safety, \$534,046 for culture and recreation and \$461,828 for community and economic development. Also, disbursements for business type activities totaled \$721,002.

The significant increase in receipts is due primarily to an increase in grant funding, additional tax increment financing collections, an increase in property tax collections and an increase in water and sewer user fees. The significant increase in disbursements is due primarily to the disbursing of grant funds.

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

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

JUNE 30, 2005

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City of Carter Lake

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Emil Hausner	Mayor	Jan 2006
Russell Kramer	Council Member	Jan 2006
Ed Aldmeyer	Council Member	Resigned
David Lodes	Council Member	Jan 2006
Jim Cannon	Council Member	Jan 2008
Barb Hawkins	Council Member	Jan 2008
Marcy Hawkins	Council Member	Jan 2008
Doreen Mowery	Clerk/Treasurer	Indefinite
Lisa Ruehle	Deputy Clerk	Indefinite
Joe Thornton	Attorney	Indefinite

City of Carter Lake



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Carter Lake, Iowa, as of and for the year ended June 30, 2005, 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.

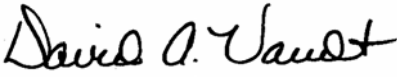
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

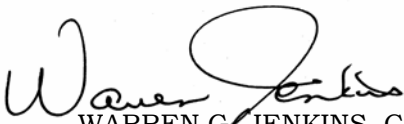
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Carter Lake as of June 30, 2005, 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 August 3, 2005 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 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, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 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

August 3, 2005

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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- The City's total receipts for governmental activities increased 24.7%, or approximately \$592,000, from fiscal year 2004 to 2005. The total cost of all governmental activities programs and services increased 12%, or approximately \$295,000. A new program was added this year to account for Community and Economic Development funds received from CEBA grant funds. The increase in receipts was primarily the result of \$444,000 in CEBA grant funds received for the InfoUSA project.
- The City increased property tax rates for 2005 by an average of 3.17%. This increase raised the City's budgeted property tax receipts by approximately \$110,128 in 2005. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase by an additional \$96,063 next year.
- The cost of all governmental activities this year was \$2.7 million compared to \$2.4 million last year. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was \$1.7 million because some of the cost was paid by those directly benefited from the programs (\$158,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$914,000).

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 and proprietary funds.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, 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. 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.

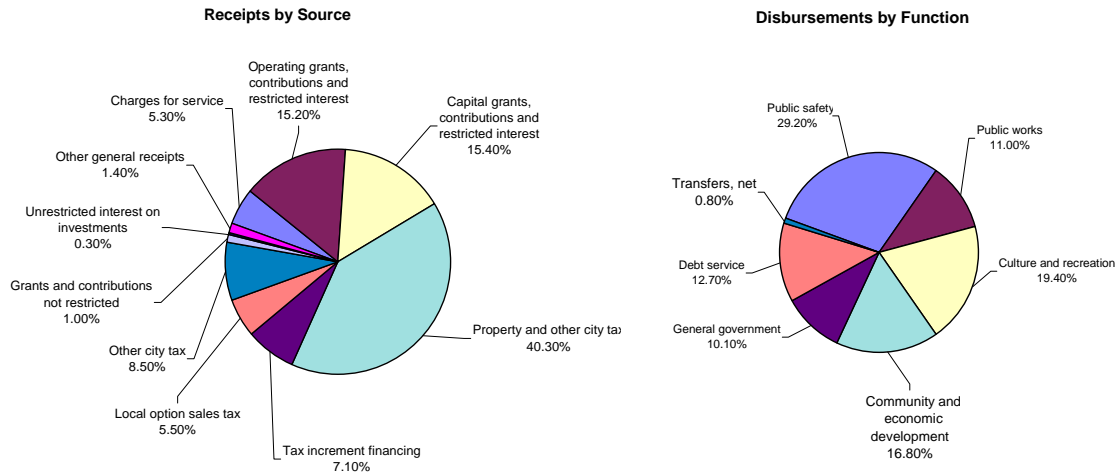
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the water, sewer, garbage, golf course and storm water funds. The water, sewer and garbage funds are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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$234,709 to \$467,694. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service	\$ 158	178
Operating grants, contributions and restricted interest	454	438
Capital grants, contributions and restricted interest	460	5
General receipts:		
Property and other city tax	1,199	1,168
Tax increment financing	213	185
Local option sales tax	164	165
Other city tax	255	199
Grants and contributions not restricted	29	-
Unrestricted interest on investments	10	8
Other general receipts	42	46
Total receipts	<u>2,984</u>	<u>2,392</u>
Disbursements and transfers:		
Public safety	803	634
Public works	303	371
Health and social services	1	-
Culture and recreation	534	589
Community and economic development	462	-
General government	277	263
Debt service	350	506
Capital projects	-	72
Transfers, net	21	21
Total disbursements and transfers	<u>2,751</u>	<u>2,456</u>
Increase (decrease) in cash basis net assets	233	(64)
Cash basis net assets beginning of year	235	299
Cash basis net assets end of year	<u>\$ 468</u>	<u>235</u>



Total governmental activities receipts for the fiscal year were \$2.984 million compared to \$2.392 million last year. This increase was due primarily to an increase in property tax, tax increment financing, other city taxes and CEBA Grant funds.

The cost of all governmental activities this year was \$2.751 million compared to \$2.456 million last year. This increase was due primarily to the disbursing of CEBA grant funds for the InfoUSA project.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2005	2004
Receipts and transfers:		
Program receipts:		
Charges for service:		
Water	\$ 386	374
Sewer	315	301
Garbage	168	164
General receipts:		
Local option sales tax	164	165
Loan proceeds	-	25
Transfers	21	21
Total receipts and transfers	1,054	1,050
Disbursements:		
Water	289	317
Sewer	262	231
Garbage	136	107
Storm water	34	-
Total disbursements	721	655
Increase in cash basis net assets	333	395
Cash basis net assets beginning of year	500	105
Cash basis net assets end of year	\$ 833	500

Total business type activities charges for service receipts for the fiscal year were \$869,713, compared to \$838,836 last year. This increase was due primarily to the Council enacting increases in water and sewer user fees. The cash balance increased by approximately \$333,000 over the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Carter Lake completed the year, its governmental funds reported a combined fund balance of approximately \$468,000, an increase of approximately \$233,000 over last year's total of approximately \$235,000. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased by \$885 from the prior year to \$226,373. This decrease could be attributed to the use of reserve funds for day-to-day operations.
- The Road Use Tax Fund cash balance increased by \$73,644 to \$210,320 during the fiscal year. This increase was attributed to purchases of equipment and payments on paving projects in the prior year.
- The Employees' Retirement Fund cash balance increased by \$17,965 to a balance of \$54,697. This increase was primarily attributed to health and dental insurance costing less than was originally projected for the year.
- The Tax Increment Financing Fund cash balance increased by \$149,832 to a negative balance of \$44,341. This increase is attributed to minimum assessment agreements being assessed to certain properties and property tax being timely collected. It has been determined by the City Council that the negative fund balance will clear out over a matter of approximately 12 years. It should be noted that of the tax revenue collected for Urban Renewal Project #2, fifty-seven percent of the funds collected will be distributed to the developer per the development agreement between the City and the developer. The 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 should begin being funded during the next fiscal year.
- The InfoUSA CEBA Grant Fund had an ending cash balance of \$2,172. This fund was set up to account for the CEBA grant fund receipts and the City's match. The City's current obligation is to allocate \$9,000 annually towards this project for economic development. As of the end of the year, the City had not obligated the entire \$9,000. These funds will be carried over and obligated in future years.
- The Debt Service Fund cash balance decreased by \$6,177 to \$37,295 during the fiscal year. This decrease was due to a decrease in property tax, as well as a decrease in debt obligations. There were no additional notes issued during the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$161,030 to \$356,240, due primarily to an increase in the rates charged to customers. Disbursements decreased from the previous year by approximately \$28,000. Approximately \$82,000 of local option sales tax was credited to the Water Fund. The City transferred \$18,000 to the Storm Water Utility Account to cover part of the costs of the preparation and implementation of the Storm Water Master Plan.
- The Sewer Fund cash balance increased by \$116,562 to \$336,302, due primarily to an increase in the rates charged to customers. Disbursements increased from the previous year by approximately \$32,000. Approximately \$82,000 of local option sales tax was credited to the Sewer Fund. The City transferred \$18,000 to the Storm Water Utility Account to cover part of the costs of the preparation and implementation of the Storm Water Master Plan.

- The Garbage Fund cash balance increased by \$32,532 to \$188,502, due primarily to revenue exceeding expenditures. Garbage fees were not increased during the 2005 year. The contracted garbage rates did not increase during the 2005 year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on March 7, 2005 and resulted in a net increase of \$692,543 in disbursements. The increase was primarily to account for the CEBA grant fund disbursements and projected increased insurance premiums. The City had sufficient grant funds, miscellaneous revenues and cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$2,389,000 in notes and other long-term debt, compared to approximately \$2,636,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2005	2004
General obligation notes	\$ 1,990	2,175
Urban renewal tax increment financing revenue notes	335	365
Lease purchase agreements	44	57
Loans	20	39
Total	<u>\$ 2,389</u>	<u>2,636</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding debt of approximately \$2,389,000 is significantly below its constitutional debt limit of \$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 2005 fiscal year budget. One of those factors is the economy. The City’s total assessed valuations have increased slightly. However, funding from the State has decreased due to the State’s budget constraints.

CONTACTING THE CITY’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City’s finances and to show the City’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Doreen Mowery, City Clerk, 950 Locust Street, Carter Lake, Iowa 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, 2005

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 802,853	86,481	26,799	-
Public works	302,872	-	270,058	-
Health and social services	1,350	-	-	-
Culture and recreation	534,046	47,783	137,139	-
Community and economic development	461,828	-	-	455,000
General government	276,834	24,109	19,819	1,756
Debt service	350,693	-	-	3,338
Total governmental activities	2,730,476	158,373	453,815	460,094
Business type activities:				
Water	289,435	386,537	-	-
Sewer	262,420	315,053	-	-
Garbage	135,591	168,123	-	-
Storm water	33,556	-	-	-
Total business type activities	721,002	869,713	-	-
Total	\$ 3,451,478	1,028,086	453,815	460,094

General Receipts:

Property and other city taxes 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
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
(689,573)	-	(689,573)
(32,814)	-	(32,814)
(1,350)	-	(1,350)
(349,124)	-	(349,124)
(6,828)	-	(6,828)
(231,150)	-	(231,150)
(347,355)	-	(347,355)
(1,658,194)	-	(1,658,194)
-	97,102	97,102
-	52,633	52,633
-	32,532	32,532
-	(33,556)	(33,556)
-	148,711	148,711
(1,658,194)	148,711	(1,509,483)
920,678	-	920,678
212,667	-	212,667
278,343	-	278,343
163,857	163,858	327,715
255,282	-	255,282
28,963	-	28,963
9,874	-	9,874
42,515	-	42,515
(21,000)	21,000	-
1,891,179	184,858	2,076,037
232,985	333,569	566,554
234,709	499,512	734,221
\$ 467,694	833,081	1,300,775
\$ 210,320	-	210,320
37,295	-	37,295
57,816	-	57,816
162,263	833,081	995,344
\$ 467,694	833,081	1,300,775

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, 2005

	Special Revenue			
	General	Road Use Tax	Employees' Retirement	Tax Increment Financing
Receipts:				
Property tax	\$ 669,111	-	221,666	-
Tax increment financing	-	-	-	212,667
Other city tax	313,665	114,700	-	-
Licenses and permits	62,104	-	-	-
Use of money and property	34,570	-	-	-
Intergovernmental	187,305	270,058	-	-
Charges for service	45,666	-	-	-
Special assessments	-	-	-	-
Miscellaneous	90,613	-	4,976	-
Total receipts	1,403,034	384,758	226,642	212,667
Disbursements:				
Operating:				
Public safety	665,211	-	134,397	-
Public works	758	302,114	-	-
Health and social services	1,350	-	-	-
Culture and recreation	483,582	-	50,464	-
Community and economic development	-	-	-	-
General government	253,018	-	23,816	-
Debt service	-	-	-	52,150
Total disbursements	1,403,919	302,114	208,677	52,150
Excess (deficiency) of receipts over (under) disbursements	(885)	82,644	17,965	160,517
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	-	(9,000)	-	(10,685)
Total other financing sources (uses)	-	(9,000)	-	(10,685)
Net change in cash balances	(885)	73,644	17,965	149,832
Cash balances beginning of year	227,258	136,676	36,732	(194,173)
Cash balances end of year	\$ 226,373	210,320	54,697	(44,341)
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	-	-
Unreserved:				
General fund	226,373	-	-	-
Special revenue funds	-	210,320	54,697	(44,341)
Capital projects fund	-	-	-	-
Total cash basis fund balances	\$ 226,373	210,320	54,697	(44,341)

See notes to financial statements.

InfoUSA	Debt	Nonmajor	Total
CEBA	Service		
Grant			
-	278,343	20,675	1,189,795
-	-	-	212,667
-	-	-	428,365
-	-	-	62,104
-	-	4	34,574
455,000	-	-	912,363
-	-	-	45,666
-	3,338	-	3,338
-	-	-	95,589
455,000	281,681	20,679	2,984,461
-	-	3,245	802,853
-	-	-	302,872
-	-	-	1,350
-	-	-	534,046
461,828	-	-	461,828
-	-	-	276,834
-	298,543	-	350,693
461,828	298,543	3,245	2,730,476
(6,828)	(16,862)	17,434	253,985
9,000	10,685	-	19,685
-	-	(21,000)	(40,685)
9,000	10,685	(21,000)	(21,000)
2,172	(6,177)	(3,566)	232,985
-	43,472	(15,256)	234,709
2,172	37,295	(18,822)	467,694
-	37,295	-	37,295
-	-	-	226,373
2,172	-	947	223,795
-	-	(19,769)	(19,769)
2,172	37,295	(18,822)	467,694

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, 2005

	Enterprise Funds				
	Water	Sewer	Garbage	Nonmajor	Total
Operating receipts:					
Charges for service	\$ 374,648	315,053	168,123	-	857,824
Miscellaneous	11,889	-	-	-	11,889
Total operating receipts	386,537	315,053	168,123	-	869,713
Operating disbursements:					
Business type activities:					
Operations	289,436	262,420	135,591	33,555	721,002
Excess (deficiency) of operating receipts over (under) operating disbursements	97,101	52,633	32,532	(33,555)	148,711
Non-operating receipts:					
Local option sales tax	81,929	81,929	-	-	163,858
Excess (deficiency) of receipts over (under) disbursements	179,030	134,562	32,532	(33,555)	312,569
Other financing sources (uses):					
Operating transfers in	-	-	-	57,000	57,000
Operating transfers out	(18,000)	(18,000)	-	-	(36,000)
Total other financing sources (uses)	(18,000)	(18,000)	-	57,000	21,000
Net change in cash balances	161,030	116,562	32,532	23,445	333,569
Cash balances beginning of year	195,210	219,740	155,970	(71,408)	499,512
Cash balances end of year	\$ 356,240	336,302	188,502	(47,963)	833,081
Cash Basis Fund Balances					
Unreserved	\$ 356,240	336,302	188,502	(47,963)	833,081

See notes to financial statements.

City of Carter Lake

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Carter Lake is a political subdivision of the State of Iowa located in Pottawattamie County. It was first incorporated in 1930 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation and general government services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Pottawattamie County Assessor's Conference Board and the Pottawattamie County Joint E911 Service Board.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

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

The InfoUSA Grant Fund is used to account for an economic development project financed primarily by the Iowa Department of Economic Development, Community Economic Betterment Account (CEBA).

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

The City reports the following major proprietary funds:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

(3) Notes and Other Financing Arrangements Payable

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

Year Ending June 30,	General Obligation		Urban Renewal Tax Increment Financing		Total	
	Notes		Revenue Notes			
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 180,000	102,644	35,000	19,550	215,000	122,194
2007	155,000	93,098	35,000	17,500	190,000	110,598
2008	160,000	85,681	40,000	15,450	200,000	101,131
2009	165,000	77,925	40,000	13,150	205,000	91,075
2010	95,000	69,847	45,000	10,850	140,000	80,697
2011-2015	505,000	274,801	140,000	16,650	645,000	291,451
2016-2020	590,000	134,402	-	-	590,000	134,407
2021	140,000	7,420	-	-	140,000	7,420
Total	\$1,990,000	845,818	335,000	93,150	2,325,000	938,973

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

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

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

Iowa Community and Rural Development Loan

On February 25, 1991, the City entered into a loan agreement with the Iowa Department of Economic Development (DED) for the purpose of financing lake level maintenance from DED's Iowa Community and Rural Development Loan Program. The loan of \$87,269 is to be repaid to DED in 15 annual installments, which began January 2, 1992 and will end with the final payment on January 2, 2006. The loan bears interest at 3% per annum and the unpaid principal balance at June 30, 2005 totaled \$7,096.

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, 2005, \$14,686, including interest, was paid under this agreement. The principal balance at June 30, 2005 was \$39,042.

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, 2005, \$2,616, including interest, was paid under this agreement. The principal balance at June 30, 2005 was \$4,555.

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, 2005:

Year Ending June 30,	Ambulance	Telephone System	Total
2006	\$ 14,686	2,616	17,302
2007	14,686	2,616	17,302
2008	14,686	-	14,686
Total payments	44,058	5,232	49,290
Less amount representing interest	(5,016)	(677)	(5,693)
Present value of net minimum payments	\$ 39,042	4,555	43,597

Bank Loan – 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, 2005, \$12,944, including interest, was paid under this agreement. The principal balance at June 30, 2005 was \$12,600.

(4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$61,507, \$50,022 and \$55,766, 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, 2005, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 30,000
Compensatory time	17,000
Sick leave	<u>43,000</u>
Total	<u>\$ 90,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2005.

(6) Risk Management

The City is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: InfoUSA Grant	Special Revenue: Road Use Tax	\$ 9,000
Debt Service	Special Revenue: Tax Increment Financing	10,685
Enterprise: Golf Course	Special Revenue: Emergency	21,000
Storm Water	Enterprise: Water	18,000
	Sewer	<u>18,000</u>
Total		<u>\$ 76,685</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 \$44,341 at June 30, 2005. The deficit balance will be eliminated through transfers from other city funds and future tax increment financing collections.

The Capital Projects Fund had a deficit balance of \$19,769 at June 30, 2005. The deficit balance will be eliminated through transfers from other city funds.

The Enterprise, Golf Course Fund had a deficit balance of \$50,408 at June 30, 2005. The City plans to eliminate the deficit through collection of an emergency tax levy.

(9) Development and Rebate Agreement

The City entered into a development and rebate agreement during the year ended June 30, 2000 to assist in an urban renewal project. The City agreed to rebate incremental taxes paid by the developer in exchange for public improvement infrastructure constructed by the developer as set forth in the urban renewal plan. The incremental taxes to be received by the City under Chapter 403.10 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The total amount rebated under the development and rebate agreement is not to exceed the actual cost of the public improvement paid for by the developer.

The City collected tax increment financing to be rebated to the developer. However, the developer returned the City's check and, accordingly, no rebates were paid to the developer in fiscal year 2005. On August 3, 2005, the City issued a new check to the developer for \$157,042.

No bonds or notes were issued for this construction project.

(10) Community Economic Betterment Account (CEBA) Loan

On October 14, 2004, the City received \$455,000 from the Iowa Department of Economic Development 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 Iowa Department of Economic Development. 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, 2005 was \$142,200.

City of Carter Lake

Required Supplementary Information

City of Carter Lake
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 1,304,495	-	1,304,495
Tax increment financing	212,667	-	212,667
Other city tax	313,665	163,858	477,523
Licenses and permits	62,104	-	62,104
Use of money and property	34,574	-	34,574
Intergovernmental	912,363	-	912,363
Charges for service	45,666	857,824	903,490
Special assessments	3,338	-	3,338
Miscellaneous	95,589	11,889	107,478
Total receipts	<u>2,984,461</u>	<u>1,033,571</u>	<u>4,018,032</u>
Disbursements:			
Public safety	802,853	-	802,853
Public works	302,872	-	302,872
Health and social services	1,350	-	1,350
Culture and recreation	534,046	-	534,046
Community and economic development	461,828	-	461,828
General government	276,834	-	276,834
Debt service	350,693	-	350,693
Business type activities	-	721,002	721,002
Total disbursements	<u>2,730,476</u>	<u>721,002</u>	<u>3,451,478</u>
Excess of receipts over disbursements	253,985	312,569	566,554
Other financing sources, net	(21,000)	21,000	-
Excess of receipts and other financing sources over disbursements and other financing uses	232,985	333,569	566,554
Balances beginning of year	234,709	499,512	734,221
Balances end of year	<u>\$ 467,694</u>	<u>833,081</u>	<u>1,300,775</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total Variance
1,222,634	1,222,634	81,861
211,604	211,604	1,063
415,141	415,141	62,382
44,225	53,800	8,304
31,150	31,974	2,600
399,533	924,896	(12,533)
809,050	878,600	24,890
-	4,000	(662)
242,860	256,025	(148,547)
<u>3,376,197</u>	<u>3,998,674</u>	<u>19,358</u>
794,192	853,529	50,676
319,944	358,116	55,244
-	1,350	-
516,050	549,503	15,457
-	464,000	2,172
259,464	288,834	12,000
431,904	442,390	91,697
762,691	819,066	98,064
<u>3,084,245</u>	<u>3,776,788</u>	<u>325,310</u>
291,952	221,886	344,668
-	10,486	(10,486)
291,952	232,372	334,182
396,290	734,221	-
<u>688,242</u>	<u>966,593</u>	<u>334,182</u>

City of Carter Lake

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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 \$692,543. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the health and social services and community and economic development functions prior to amendment of the budget.

Other Supplementary Information

Schedule 1

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, 2005

	Special Revenue			
	Emergency	Police Forfeiture	Capital Projects	Total
Receipts:				
Property tax	\$ 20,675	-	-	20,675
Use of money and property	-	4	-	4
Total receipts	20,675	4	-	20,679
Disbursements:				
Operating:				
Public safety	-	3,245	-	3,245
Excess (deficiency) of receipts over (under) disbursements	20,675	(3,241)	-	17,434
Other financing uses:				
Operating transfers out	(21,000)	-	-	(21,000)
Net change in cash balances	(325)	(3,241)	-	(3,566)
Cash balances beginning of year	1,271	3,242	(19,769)	(15,256)
Cash balances end of year	\$ 946	1	(19,769)	(18,822)
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ 946	1	-	947
Capital projects fund	-	-	(19,769)	(19,769)
Total cash basis fund balances	\$ 946	1	(19,769)	(18,822)

See accompanying independent auditor's report.

City of Carter Lake

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

As of and for the year ended June 30, 2005

	Golf Course	Storm Water	Total
Operating receipts:	\$ -	-	-
Operating disbursements:			
Business type activities:			
Operations	-	33,555	33,555
Deficiency of operating receipts under operating disbursements	-	(33,555)	(33,555)
Other financing sources:			
Operating transfers in	21,000	36,000	57,000
Net change in cash balances	21,000	2,445	23,445
Cash balances beginning of year	(71,408)	-	(71,408)
Cash balances end of year	\$ (50,408)	2,445	(47,963)
Cash Basis Fund Balances			
Unreserved	\$ (50,408)	2,445	(47,963)

See accompanying independent auditor's report.

City of Carter Lake
Schedule of Indebtedness
Year ended June 30, 2005

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
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

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
60,000	-	30,000	30,000	3,900
345,000	-	65,000	280,000	16,558
570,000	-	45,000	525,000	30,393
1,200,000	-	45,000	1,155,000	61,493
<u>\$ 2,175,000</u>	<u>-</u>	<u>185,000</u>	<u>1,990,000</u>	<u>112,344</u>
155,000	-	15,000	140,000	11,250
210,000	-	15,000	195,000	10,900
<u>\$ 365,000</u>	<u>-</u>	<u>30,000</u>	<u>335,000</u>	<u>22,150</u>
13,987	-	6,891	7,096	420
50,546	-	11,504	39,042	3,182
6,408	-	1,853	4,555	763
<u>\$ 56,954</u>	<u>-</u>	<u>13,357</u>	<u>43,597</u>	<u>3,945</u>
24,787	-	12,187	12,600	757

City of Carter Lake

City of Carter Lake

Note Maturities

June 30, 2005

Year Ending June 30,	General Obligation Notes									Total
	Capital Loan Notes		Capital Loan Notes		Capital Loan Notes		Capital Loan Notes			
	Issued Jan 1, 1995		Issued Jun 1, 1999		Issued Dec 1, 2000		Issued May 1, 2001			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2006	6.55%	\$ 30,000	5.125%	\$ 65,000	5.00%	\$ 35,000	5.00%	\$ 50,000	180,000	
2007	-	-	4.500	70,000	5.05	35,000	5.00	50,000	155,000	
2008	-	-	4.600	70,000	5.10	35,000	5.00	55,000	160,000	
2009	-	-	4.700	75,000	5.15	35,000	5.00	55,000	165,000	
2010	-	-	-	-	5.20	35,000	5.00	60,000	95,000	
2011	-	-	-	-	5.25	35,000	5.00	60,000	95,000	
2012	-	-	-	-	5.30	35,000	5.00	65,000	100,000	
2013	-	-	-	-	5.35	35,000	5.00	65,000	100,000	
2014	-	-	-	-	5.40	35,000	5.05	70,000	105,000	
2015	-	-	-	-	5.45	35,000	5.10	70,000	105,000	
2016	-	-	-	-	5.50	35,000	5.15	75,000	110,000	
2017	-	-	-	-	5.60	35,000	5.20	80,000	115,000	
2018	-	-	-	-	5.70	35,000	5.25	85,000	120,000	
2019	-	-	-	-	5.75	35,000	5.25	85,000	120,000	
2020	-	-	-	-	5.80	35,000	5.30	90,000	125,000	
2021	-	-	-	-	-	-	5.30	140,000	140,000	
Total		<u>\$ 30,000</u>		<u>\$ 280,000</u>		<u>\$ 525,000</u>		<u>\$ 1,155,000</u>	<u>1,990,000</u>	

Year Ending June 30,	Urban Renewal Tax Increment Financing Revenue Notes					Total
	Capital Loan Notes		Capital Loan Notes			
	Issued Feb 1, 1999		Issued Feb 1, 1999			
	Interest Rates	Amount	Interest Rates	Amount		
2006	7.00%	\$ 15,000	5.00%	\$ 20,000	\$ 35,000	
2007	7.00	15,000	5.00	20,000	35,000	
2008	7.00	15,000	5.00	25,000	40,000	
2009	7.00	15,000	5.00	25,000	40,000	
2010	7.00	20,000	5.00	25,000	45,000	
2011	7.00	20,000	5.00	25,000	45,000	
2012	7.00	20,000	5.00	25,000	45,000	
2013	7.00	20,000	5.00	30,000	50,000	
Total		<u>\$ 140,000</u>		<u>\$ 195,000</u>	<u>\$ 335,000</u>	

See accompanying independent auditor's report.

Schedule 5

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

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

See accompanying independent auditor's report.

**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

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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, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 3, 2005. 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 (C) is a material weakness.

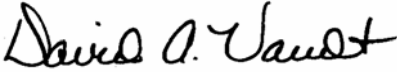
Compliance and Other Matters


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, 2005 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, including federal awarding agencies and pass-through entities. 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

August 3, 2005

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- (A) Monthly Journal Entry Review – Monthly journal entries are prepared by the City Clerk and did not have any evidence of review by an independent person.

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

Response – We will require an independent review including initials and date of review.

Conclusion – Response accepted.

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

The City does not have written policies for:

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

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

City of Carter Lake

Schedule of Findings

Year ended June 30, 2005

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 the Park and Recreation Department collections.

City of Carter Lake

Schedule of Findings

Year ended June 30, 2005

Findings Related to Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- (2) Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amount budgeted in the health and social services and community and economic development functions prior to budget amendment. Chapter 384.20 of the Code of Iowa states in part that 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 – In the future we will do the budget amendment prior to expenditure.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The City did not always publish or post the minutes within 15 days of the meeting in accordance with Chapter 372.13 (6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa.

Response – The non-publication was an oversight. We are aware of this requirement.

Conclusion – Response accepted.

City of Carter Lake

Schedule of Findings

Year ended June 30, 2005

- (8) Deposits and Investments – Deposits and investments were in compliance with Chapters 12B and 12C of the Code of Iowa and the City’s investment policy.
- (9) Revenue Notes – The City has established the sinking and reserve accounts required by the urban renewal tax increment financing revenue note resolutions.
- (10) Financial Condition – At June 30, 2005, the City had deficit balances as follows:

Fund	Balance	
	June 30, 2005	June 30, 2004
Special Revenue:		
Tax Increment Financing	\$ (44,341)	(194,173)
Capital Projects	(19,769)	(19,769)
Enterprise:		
Golf Course	(50,408)	(71,408)

Recommendation – The City should evaluate the reason for these deficits and investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial position.

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.

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

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

Response – The City is in the process of completing this.

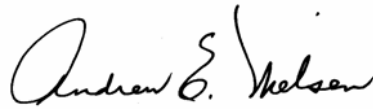
Conclusion – Response accepted.

City of Carter Lake

Staff

This audit was performed by:

Suzanne R. Hanft, CPA, Manager
Paul F. Kearney, CGFM, Senior Auditor
Nicole B. Tenges, Staff Auditor
Melissa J. Knoll, 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 "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State