



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

January 2, 2008

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

The City's receipts totaled \$4,938,811 for the year ended June 30, 2007, a 4 percent increase over 2006. The receipts included \$2,577,372 in property and other city tax, \$375,848 from local option sales tax, \$1,043,346 from charges for service, \$459,597 from operating grants, contributions and restricted interest, \$326,600 from capital grants, contributions and restricted interest and \$156,048 from other general receipts.

Disbursements for the year totaled \$4,943,986, a 41 percent increase over the prior year, and included \$1,559,200 for capital projects, \$919,725 for public safety and \$609,128 for culture and recreation. Also, disbursements for business type activities totaled \$724,544.

The significant increase in disbursements is due primarily to the disbursement of note proceeds for the construction of storm water and lake project improvements.

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

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

JUNE 30, 2007

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City of Carter Lake

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Russell Kramer	Mayor	Jan 2010
Doug Wallingford	Council Member	Nov 2007
Tim Parker (appointed Jul 2006)	Council Member	Nov 2007
Les Lundberg (appointed May 2007)	Council Member	Nov 2007
Jim Cannon	Council Member	(resigned May 2007)
Barb Hawkins	Council Member	Jan 2008
Steve Wilbur	Council Member	Jan 2010
Doreen Mowery	Clerk/Treasurer	Indefinite
Lisa Ruehle	Deputy Clerk	Indefinite
Joe Thornton	Attorney	Indefinite

City of Carter Lake



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Carter Lake, Iowa, as of and for the year ended June 30, 2007, 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.

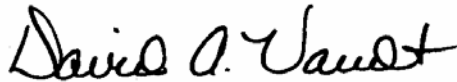
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

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, 2007, 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 September 19, 2007 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 six years ended June 30, 2006 (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

September 19, 2007

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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- The City's total receipts for governmental activities increased 33.2%, or approximately \$960,000, from fiscal year 2006 to 2007. The total cost of all governmental activities programs and services increased 57%, or approximately \$1,532,000. The increase in receipts was primarily the result of significant increases in collections of property tax, tax increment financing and other city taxes over last year. The increase in disbursements was the result of capital projects started in fiscal year 2007.
- The City decreased property tax rates for 2007 by an average of 6.26%. However, due to increases in taxable valuation, the City's budgeted property tax receipts increased by approximately \$65,000 in 2007. Property tax receipts are budgeted to decrease by \$74,000 next year.
- The cost of all governmental activities this year was \$4.22 million compared to \$2.69 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 \$3.3 million because some of the cost was paid by those directly benefited from the programs (\$144,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$786,000).

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 four Enterprise Funds to provide separate information for the water, sewer, garbage and golf course funds. The water, sewer and garbage funds are considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$1,427,565 to \$1,407,948. The beginning balance was restated from \$667,907 to \$1,427,565 to reclassify the Enterprise, Storm Water Fund from business type activities to a Capital Projects Fund in governmental activities in fiscal year 2007. 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,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service	\$ 144	156
Operating grants, contributions and restricted interest	459	465
Capital grants, contributions and restricted interest	327	13
General receipts:		
Property and other city tax	1,492	1,298
Tax increment financing	573	377
Local option sales tax	188	202
Other city tax	512	288
Grants and contributions not restricted	-	1
Unrestricted interest on investments	77	34
Bank loan proceeds	-	21
Other general receipts	79	36
Total receipts	<u>3,851</u>	<u>2,891</u>
Disbursements:		
Public safety	920	873
Public works	405	319
Health and social services	10	1
Culture and recreation	609	588
General government	294	266
Debt service	422	339
Capital projects	1,559	301
Total disbursements	<u>4,219</u>	<u>2,687</u>
Change in cash basis net assets before transfers	(368)	204
Transfers, net	348	(4)
Change in cash basis net assets	(20)	200
Cash basis net assets beginning of year, as restated	1,428	468
Cash basis net assets end of year	<u>\$ 1,408</u>	<u>668</u>

Total governmental activities receipts for the fiscal year were \$3.851 million compared to \$2.891 million last year. This increase was due primarily to an increase in property tax, tax increment financing and other city tax.

The cost of all governmental activities this year was \$4.219 million compared to \$2.687 million last year. This increase was due primarily to capital projects started in the current year.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 398	424
Sewer	337	329
Garbage	165	167
Storm water	-	160
Use of money and property	-	2
General receipts:		
Local option sales tax	188	202
Note proceeds	-	593
Total receipts	<u>1,088</u>	<u>1,877</u>
Disbursements:		
Water	320	345
Sewer	269	323
Garbage	136	121
Storm water	-	47
Total disbursements	<u>725</u>	<u>836</u>
Change in cash basis net assets before transfers	363	1,041
Transfers, net	<u>(348)</u>	<u>4</u>
Change in cash basis net assets	15	1,045
Cash basis net assets beginning of year, as restated	<u>1,118</u>	<u>833</u>
Cash basis net assets end of year	<u>\$ 1,133</u>	<u>1,878</u>

Total business type activities charges for service receipts for the fiscal year were \$899,654 compared to \$1,078,653 last year. This decrease was due primarily to the City reclassifying the Enterprise, Storm Water Fund from business type activities to a Capital Projects Fund in governmental activities in fiscal year 2007. After the restatement the cash basis net assets increased \$14,442 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 \$1,408,000, a decrease of approximately \$20,000 under last year's total of approximately \$1,428,000. 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 \$293,275 over the prior year to \$588,015. This increase is attributed to an increase in property and other city tax collections.
- The Road Use Tax Fund cash balance decreased \$20,281 to \$297,372 during the fiscal year. This decrease was attributed to a decrease in collections for other city tax and miscellaneous grant allocations and an increase in disbursements for street equipment and projects.

- The Tax Increment Financing Fund cash balance increased \$318,370 to a balance of \$279,885. This increase is attributed to assessment agreements being assessed to certain properties and property tax being collected timely. It should be noted, fifty-seven percent of the funds collected for Urban Renewal Project #2 will be distributed to the developer per the development agreement between the City and the developer. The remaining forty-three percent of the funds will be used for housing rehabilitation for low to moderate income families in Carter Lake. The Urban Revitalization projects had disbursements of \$269,592 during fiscal year 2007.
- The Capital Projects Fund cash balance decreased \$679,002 to \$59,399 during the fiscal year. This decrease was due to an increase in disbursements for the Lake Project, Locust Street Project and Storm Water Project.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$177,985 to \$323,841, due primarily to the transfer of funds to the storm water project. Approximately \$94,000 of local option sales tax was credited to the Water Fund. The City transferred \$350,000 to the Capital Projects Fund to cover part of the costs of the Storm Sewer Project.
- The Sewer Fund cash balance increased \$136,227 to \$545,773, due primarily to an increase in the rates charged to customers beginning last year. Disbursements decreased from the previous year by approximately \$54,000. Approximately \$94,000 of local option sales tax was credited to the Sewer Fund. The City transferred \$25,000 to the Capital Projects Fund to cover part of the costs of the Storm Water Project.
- The Garbage Fund cash balance increased \$29,792 to \$263,354, due primarily to receipts exceeding disbursements. Garbage fees and contracted garbage rates did not increase during the 2007 year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on March 12, 2007 and resulted in a net increase of \$1,657,565 in disbursements. The increase was primarily to use cash reserves for the lake study and various capital projects. The City had sufficient grant funds, miscellaneous revenues and cash balances to absorb these additional costs.

The City's receipts were \$24,233 more than budgeted. This variance was not significant and is the result of the budget amendment increasing budgeted receipts by \$712,175, primarily due to the City receiving more in intergovernmental receipts than originally anticipated.

With the amendment, total disbursements were \$494,495 less than the amended budget. The actual disbursements for the public works and culture and recreation functions and business type activities were \$116,979, \$395,180 and \$84,713, respectively, less than the amended budget. The public works function was under budget because it was amended to account for Locust Street engineering and construction of a trail with grant funds. The projects were started later than anticipated and bills were not received until FY2008. The culture and recreation function was under budget because the lake projects were not completed as soon as anticipated. Projects were continued into FY2008 and bills were received after July 1, 2008. The enterprise funds, business type activities function budgeted for more infrastructure repairs than were completed in FY2007. However, the actual disbursements for the health and social services, debt service and capital projects functions were \$2,451, \$39,520 and \$160,607, respectively, more than the amended budget. The overexpenditure in the debt service function was due to loan and lease purchase payments in the General Fund budgeted to other functions by the City and the overexpenditure in the capital projects function was primarily due to storm water project activity. The overspent amount in the remaining function was not significant.

DEBT ADMINISTRATION

At June 30, 2007, the City had approximately \$2,479,000 in notes and other long-term debt outstanding, compared to approximately \$2,760,000 last year, as shown below.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2007	2006
General obligation notes	\$ 2,200	2,410
Urban renewal tax increment		
financing revenue notes	265	300
Lease purchase agreements	14	29
Loans	-	21
Total	\$ 2,479	2,760

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 \$2,479,000 is significantly below its constitutional debt limit of \$9.03 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 2008 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.

These factors were taken into account when adopting the budget for fiscal year 2008. Amounts available for appropriation in the operating budget are \$1.3 million, a decrease of 5.3% from the final 2007 budget. Property tax (benefiting from the 2007 rate decreases and increases in taxable valuations) are expected to lead this decrease. Budgeted disbursements are expected to increase by approximately \$301,000. The increase is due to debt service payments. The City has added no major new programs or initiatives to the 2008 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$248,000 by the close of 2008. The City will be using accumulated cash and issuance of additional debt for future projects.

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, 2007

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 919,725	81,447	14,726	-
Public works	405,487	-	270,704	-
Health and social services	9,951	-	-	-
Culture and recreation	609,128	49,448	142,397	-
General government	293,986	12,797	19,759	-
Debt service	421,965	-	-	-
Capital projects	1,559,200	-	12,011	326,600
Total governmental activities	4,219,442	143,692	459,597	326,600
Business type activities:				
Water	319,584	397,637	-	-
Sewer	269,446	336,711	-	-
Garbage	135,514	165,306	-	-
Total business type activities	724,544	899,654	-	-
Total	\$ 4,943,986	1,043,346	459,597	326,600

General Receipts:

Property and other city tax levied for:
 General purposes
 Tax increment financing
 Debt service
 Local option sales tax
 Other city tax
 Unrestricted interest on investments
 Miscellaneous
 Transfers
 Total general receipts and transfers
 Change in cash basis net assets
 Cash basis net assets beginning of year, as restated
 Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Streets
 Debt service
 Tax increment financing
 Capital projects
 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
(823,552)	-	(823,552)
(134,783)	-	(134,783)
(9,951)	-	(9,951)
(417,283)	-	(417,283)
(261,430)	-	(261,430)
(421,965)	-	(421,965)
(1,220,589)	-	(1,220,589)
(3,289,553)	-	(3,289,553)
-	78,053	78,053
-	67,265	67,265
-	29,792	29,792
-	175,110	175,110
(3,289,553)	175,110	(3,114,443)
1,224,988	-	1,224,988
572,962	-	572,962
267,559	-	267,559
187,924	187,924	375,848
511,863	-	511,863
77,168	-	77,168
78,880	-	78,880
348,592	(348,592)	-
3,269,936	(160,668)	3,109,268
(19,617)	14,442	(5,175)
1,427,565	1,118,526	2,546,091
\$ 1,407,948	1,132,968	2,540,916
\$ 297,372	-	297,372
50,202	-	50,202
279,885	-	279,885
59,399	-	59,399
133,075	-	133,075
588,015	1,132,968	1,720,983
\$ 1,407,948	1,132,968	2,540,916

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, 2007

	Special Revenue		
	General	Road Use Tax	Tax Increment Financing
Receipts:			
Property tax	\$ 906,673	-	-
Tax increment financing	-	-	572,962
Other city tax	579,600	131,546	-
Licenses and permits	41,134	-	-
Use of money and property	103,718	-	-
Intergovernmental	137,818	270,704	-
Charges for service	82,955	-	-
Miscellaneous	106,270	-	-
Total receipts	<u>1,958,168</u>	<u>402,250</u>	<u>572,962</u>
Disbursements:			
Operating:			
Public safety	761,089	-	-
Public works	783	404,704	-
Health and social services	9,951	-	-
Culture and recreation	549,712	-	-
General government	267,208	-	-
Debt service	39,620	-	53,300
Capital projects	-	-	216,292
Total disbursements	<u>1,628,363</u>	<u>404,704</u>	<u>269,592</u>
Excess (deficiency) of receipts over (under) disbursements	<u>329,805</u>	<u>(2,454)</u>	<u>303,370</u>
Other financing sources (uses):			
Operating transfers in	941	-	15,000
Operating transfers out	(37,471)	(17,827)	-
Total other financing sources (uses)	<u>(36,530)</u>	<u>(17,827)</u>	<u>15,000</u>
Net change in cash balances	293,275	(20,281)	318,370
Cash balances beginning of year, as restated	<u>294,740</u>	<u>317,653</u>	<u>(38,485)</u>
Cash balances end of year	<u>\$ 588,015</u>	<u>297,372</u>	<u>279,885</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	588,015	-	-
Special revenue funds	-	297,372	279,885
Capital projects fund	-	-	-
Total cash basis fund balances	<u>\$ 588,015</u>	<u>297,372</u>	<u>279,885</u>

See notes to financial statements.

Capital Projects	Nonmajor	Total
-	574,515	1,481,188
-	-	572,962
-	-	711,146
-	-	41,134
34,152	-	137,870
276,784	-	685,306
-	4,727	87,682
27,675	-	133,945
<u>338,611</u>	<u>579,242</u>	<u>3,851,233</u>
-	158,636	919,725
-	-	405,487
-	-	9,951
-	59,416	609,128
-	26,778	293,986
-	329,045	421,965
1,342,908	-	1,559,200
<u>1,342,908</u>	<u>573,875</u>	<u>4,219,442</u>
(1,004,297)	5,367	(368,209)
405,584	88,348	509,873
(80,289)	(25,694)	(161,281)
<u>325,295</u>	<u>62,654</u>	<u>348,592</u>
(679,002)	68,021	(19,617)
<u>738,401</u>	<u>115,256</u>	<u>1,427,565</u>
<u>59,399</u>	<u>183,277</u>	<u>1,407,948</u>
-	50,202	50,202
-	-	588,015
-	133,075	710,332
59,399	-	59,399
<u>59,399</u>	<u>183,277</u>	<u>1,407,948</u>

Exhibit C

City of Carter Lake

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

As of and for the year ended June 30, 2007

	Enterprise				Total
	Water	Sewer	Garbage	Nonmajor Golf Course	
Operating receipts:					
Charges for service	\$ 391,303	336,630	165,306	-	893,239
Miscellaneous	6,334	81	-	-	6,415
Total operating receipts	<u>397,637</u>	<u>336,711</u>	<u>165,306</u>	<u>-</u>	<u>899,654</u>
Operating disbursements:					
Business type activities:					
Operations	319,584	269,446	135,514	-	724,544
Excess of operating receipts over operating disbursements	78,053	67,265	29,792	-	175,110
Non-operating receipts:					
Local option sales tax	93,962	93,962	-	-	187,924
Excess of receipts over disbursements	<u>172,015</u>	<u>161,227</u>	<u>29,792</u>	<u>-</u>	<u>363,034</u>
Other financing sources (uses):					
Operating transfers in	-	-	-	26,408	26,408
Operating transfers out	(350,000)	(25,000)	-	-	(375,000)
Total other financing sources (uses)	<u>(350,000)</u>	<u>(25,000)</u>	<u>-</u>	<u>26,408</u>	<u>(348,592)</u>
Net change in cash balances	(177,985)	136,227	29,792	26,408	14,442
Cash balances beginning of year (as restated)	501,826	409,546	233,562	(26,408)	1,118,526
Cash balances end of year	<u>\$ 323,841</u>	<u>545,773</u>	<u>263,354</u>	<u>-</u>	<u>1,132,968</u>
Cash Basis Fund Balances					
Unreserved	<u>\$ 323,841</u>	<u>545,773</u>	<u>263,354</u>	<u>-</u>	<u>1,132,968</u>

See notes to financial statements.

City of Carter Lake

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

The 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.

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, 2007, disbursements exceeded the amounts budgeted in the health and social services, debt service and capital projects functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Notes and Other Financing Arrangements Payable

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

Year Ending June 30,	General Obligation Notes		Urban Renewal Tax Increment Financing Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 220,000	107,966	40,000	15,450	260,000	123,416
2009	225,000	97,900	40,000	13,150	265,000	111,050
2010	160,000	87,483	45,000	10,850	205,000	98,333
2011	160,000	80,063	45,000	8,200	205,000	88,263
2012	170,000	72,593	45,000	5,550	215,000	78,143
2013-2017	760,000	241,519	50,000	2,900	810,000	244,419
2018-2021	505,000	69,489	-	-	505,000	69,489
Total	\$2,200,000	757,013	265,000	56,100	2,465,000	813,113

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 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. 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.

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, 2007, \$14,686, including interest, was paid under this agreement. The principal balance at June 30, 2007 was \$13,816.

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, 2007, the final payment of \$2,616, including interest, was paid under this agreement.

The following is a schedule of the future minimum payments and the present value of the net minimum payments under the lease-purchase agreement in effect at June 30, 2007:

Year Ending June 30,	Ambulance
2008	\$ 14,686
Less amount representing interest	(870)
Present value of net minimum payments	<u>\$ 13,816</u>

Bank Loans

On August 30, 2005, the City entered into a loan agreement with Peoples National Bank totaling \$8,330, at 4.00% per annum interest, to be used for the purchase of a Ford Ranger. During the year ended June 30, 2007, the entire principal balance of \$8,330 plus interest of \$340 was paid under this agreement.

On January 24, 2006, the City entered into a loan agreement with Peoples National Bank totaling \$13,010, at 4.00% per annum interest, to be used for the purchase of a police cruiser. During the year ended June 30, 2007, the entire principal balance of \$13,010 plus interest of \$638 was paid under this agreement.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$71,174, \$66,685 and \$61,507, 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, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 37,000
Sick leave	54,000
Compensatory time	<u>4,000</u>
Total	<u>\$ 95,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

(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 556 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2007 were \$77,068.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$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, 2007, 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, 2007 is as follows:

Transfer to	Transfer from	Amount
General	Capital Projects	\$ 941
Special Revenue:		
Tax Increment Financing	General	15,000
InfoUSA CEBA Grant		9,000
Debt Service	Capital Projects	79,348
Capital Projects	General	12,757
	Special Revenue:	
	Road Use Tax	17,827
	Enterprise:	
	Water	350,000
	Sewer	25,000
Enterprise:		
Golf Course	General	714
	Special Revenue:	
	Emergency	25,694
Total		<u>\$ 536,281</u>

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

(8) Restatements

The City reclassified the Lake Projects Account from the Capital Projects Fund to the General Fund and the Storm Water Fund from the Enterprise Funds to the Capital Projects Fund, as follows:

	Governmental Funds		Enterprise
	General	Capital Projects	Funds
Cash basis net assets June 30, 2006, as previously reported	\$ 293,252	(19,769)	1,878,184
Lake Projects Account	1,488	(1,488)	-
Storm Water Fund	-	759,658	(759,658)
Cash basis net assets July 1, 2006, as restated	<u>\$ 294,740</u>	<u>738,401</u>	<u>1,118,526</u>

(9) Development and Rebate Agreements

The City entered into two separate development and rebate agreement during the years ended June 30, 2000 and June 30, 2004 to assist in urban renewal projects. The City agreed to rebate incremental taxes paid by the developer in exchange for public improvement infrastructure constructed by the developer as set forth in the urban renewal plans.

In accordance with the fiscal year 2000 development and rebate agreement, the incremental tax to be received by the City under Chapter 403.10 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which property tax on the completed value of the improvements is first paid. The total amount rebated is not to exceed the actual cost of the public 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, 2007, the City paid the developer \$171,494 and paid \$38,263 for low to moderate income housing projects from the tax increment financing received.

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

No bonds or notes were issued for these projects.

(10) Community Economic Betterment Account (CEBA) Loan

On October 14, 2004, the City received \$455,000 from the Iowa Department of Economic Development (Department) to promote and assist economic growth through the development and expansion of the municipal and county tax base. In accordance with the agreement, the City loaned \$455,000 to a qualified business. The loan consists of a \$297,000 forgivable loan and a \$158,000 interest-free conventional loan. Repayment of the conventional loan is to be made in monthly payments of \$2,633, with the first payment due January 1, 2005 to the Department. Terms of the forgivable loan are based on the creation and retention of jobs by the qualified business. Repayments on the loan are made directly to the Department from the qualified business. Therefore, the liability for this loan is not included in the Schedule of Indebtedness (Schedule 2). The outstanding loan balance at June 30, 2007 was \$79,000.

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, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 1,481,188	-	1,481,188
Tax increment financing	572,962	-	572,962
Other city tax	711,146	187,924	899,070
Licenses and permits	41,134	-	41,134
Use of money and property	137,870	-	137,870
Intergovernmental	685,306	-	685,306
Charges for service	87,682	893,239	980,921
Miscellaneous	133,945	6,415	140,360
Total receipts	<u>3,851,233</u>	<u>1,087,578</u>	<u>4,938,811</u>
Disbursements:			
Public safety	919,725	-	919,725
Public works	405,487	-	405,487
Health and social services	9,951	-	9,951
Culture and recreation	609,128	-	609,128
Community and economic development	-	-	-
General government	293,986	-	293,986
Debt service	421,965	-	421,965
Capital projects	1,559,200	-	1,559,200
Business type activities	-	724,544	724,544
Total disbursements	<u>4,219,442</u>	<u>724,544</u>	<u>4,943,986</u>
Excess (deficiency) of receipts over (under) disbursements	(368,209)	363,034	(5,175)
Other financing sources, net	348,592	(348,592)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(19,617)	14,442	(5,175)
Balances beginning of year, as restated	<u>1,427,565</u>	<u>1,118,526</u>	<u>2,546,091</u>
Balances end of year	<u>\$ 1,407,948</u>	<u>1,132,968</u>	<u>2,540,916</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total Variance
1,385,571	1,385,571	95,617
566,188	566,188	6,774
664,925	860,857	38,213
54,950	47,650	(6,516)
44,450	101,750	36,120
423,169	798,499	(113,193)
994,200	1,000,200	(19,279)
68,950	153,863	(13,503)
<u>4,202,403</u>	<u>4,914,578</u>	<u>24,233</u>
943,076	974,166	54,441
414,919	522,466	116,979
1,500	7,500	(2,451)
633,694	1,004,308	395,180
11,172	20,172	20,172
321,732	319,574	25,588
300,597	382,445	(39,520)
309,141	1,398,593	(160,607)
845,085	809,257	84,713
<u>3,780,916</u>	<u>5,438,481</u>	<u>494,495</u>
421,487	(523,903)	518,728
-	-	-
421,487	(523,903)	518,728
<u>1,325,782</u>	<u>2,546,091</u>	<u>-</u>
<u>1,747,269</u>	<u>2,022,188</u>	<u>518,728</u>

City of Carter Lake

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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 \$1,657,565. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the health and social services, debt service and capital projects functions.

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, 2007

	Special Revenue					Total
	Emergency	Employees' Retirement	Police Forfeiture	InfoUSA CEBA Grant	Debt Service	
Receipts:						
Property tax	\$ 27,232	279,724	-	-	267,559	574,515
Charges for service	-	-	4,727	-	-	4,727
Total receipts	<u>27,232</u>	<u>279,724</u>	<u>4,727</u>	<u>-</u>	<u>267,559</u>	<u>579,242</u>
Disbursements:						
Operating:						
Public safety	-	153,309	5,327	-	-	158,636
Culture and recreation	-	59,416	-	-	-	59,416
General government	-	26,778	-	-	-	26,778
Debt service	-	-	-	-	329,045	329,045
Total disbursements	<u>-</u>	<u>239,503</u>	<u>5,327</u>	<u>-</u>	<u>329,045</u>	<u>573,875</u>
Excess (deficiency) of receipts over (under) disbursements	<u>27,232</u>	<u>40,221</u>	<u>(600)</u>	<u>-</u>	<u>(61,486)</u>	<u>5,367</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	9,000	79,348	88,348
Operating transfers out	(25,694)	-	-	-	-	(25,694)
Total other financing sources (uses)	<u>(25,694)</u>	<u>-</u>	<u>-</u>	<u>9,000</u>	<u>79,348</u>	<u>62,654</u>
Net change in cash balances	1,538	40,221	(600)	9,000	17,862	68,021
Cash balances beginning of year	(737)	68,960	3,521	11,172	32,340	115,256
Cash balances end of year	<u>\$ 801</u>	<u>109,181</u>	<u>2,921</u>	<u>20,172</u>	<u>50,202</u>	<u>183,277</u>
Cash Basis Fund Balances						
Reserved for debt service	\$ -	-	-	-	50,202	50,202
Unreserved:						
Special revenue funds	801	109,181	2,921	20,172	-	133,075
Total cash basis fund balances	<u>\$ 801</u>	<u>109,181</u>	<u>2,921</u>	<u>20,172</u>	<u>50,202</u>	<u>183,277</u>

See accompanying independent auditor's report.

City of Carter Lake
Schedule of Indebtedness
Year ended June 30, 2007

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
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			
Lease-purchase agreements:			
Ambulance	Jan 5, 2001	6.295%	\$ 81,130
Telephone system	Jul 5, 2002	13.68	9,437
Total			
Bank loan:			
Park department truck	Aug 30, 2005	4.00%	\$ 8,330
Police cruiser	Jan 24, 2006	4.00	13,010
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
215,000	-	70,000	145,000	10,295
490,000	-	35,000	455,000	26,860
1,105,000	-	50,000	1,055,000	57,143
600,000	-	55,000	545,000	24,747
<u>\$ 2,410,000</u>	<u>-</u>	<u>210,000</u>	<u>2,200,000</u>	<u>119,045</u>
125,000	-	15,000	110,000	9,150
175,000	-	20,000	155,000	9,150
<u>\$ 300,000</u>	<u>-</u>	<u>35,000</u>	<u>265,000</u>	<u>18,300</u>
26,814	-	12,998	13,816	1,688
2,432	-	2,432	-	184
<u>\$ 29,246</u>	<u>-</u>	<u>15,430</u>	<u>13,816</u>	<u>1,872</u>
8,330	-	8,330	-	340
13,010	-	13,010	-	638
<u>\$ 21,340</u>	<u>-</u>	<u>21,340</u>	<u>-</u>	<u>978</u>

Schedule 3

City of Carter Lake

Note Maturities

June 30, 2007

Year Ending June 30,	General Obligation Notes								
	Capital Loan Notes		Capital Loan Notes		Capital Loan Notes		Capital Loan Notes		Total
	Issued Jun 1, 1999		Issued Dec 1, 2000		Issued May 1, 2001		Issued Jun 1, 2006		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2008	4.60%	\$ 70,000	5.10%	\$ 35,000	5.00%	\$ 55,000	3.85%	\$ 60,000	220,000
2009	4.70	75,000	5.15	35,000	5.00	55,000	3.90	60,000	225,000
2010	-	-	5.20	35,000	5.00	60,000	4.00	65,000	160,000
2011	-	-	5.25	35,000	5.00	60,000	4.05	65,000	160,000
2012	-	-	5.30	35,000	5.00	65,000	4.10	70,000	170,000
2013	-	-	5.35	35,000	5.00	65,000	4.15	70,000	170,000
2014	-	-	5.40	35,000	5.05	70,000	4.25	75,000	180,000
2015	-	-	5.45	35,000	5.10	70,000	4.30	80,000	185,000
2016	-	-	5.50	35,000	5.15	75,000	-	-	110,000
2017	-	-	5.60	35,000	5.20	80,000	-	-	115,000
2018	-	-	5.70	35,000	5.25	85,000	-	-	120,000
2019	-	-	5.75	35,000	5.25	85,000	-	-	120,000
2020	-	-	5.80	35,000	5.30	90,000	-	-	125,000
2021	-	-	-	-	5.30	140,000	-	-	140,000
Total		<u>\$ 145,000</u>		<u>\$ 455,000</u>		<u>\$ 1,055,000</u>		<u>\$ 545,000</u>	<u>2,200,000</u>

Year Ending June 30,	Urban Renewal Tax Increment Financing Revenue Notes				
	Capital Loan Notes		Capital Loan Notes		Total
	Issued Feb 1, 1999		Issued Feb 1, 1999		
	Interest Rates	Amount	Interest Rates	Amount	
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>\$ 110,000</u>		<u>\$ 155,000</u>	<u>265,000</u>

See accompanying independent auditor's report.

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

	2007	2006	2005	2004	2003	2002	2001
Receipts:							
Property tax	\$ 1,481,188	1,289,066	1,189,795	1,149,542	1,046,559	1,276,677	1,241,000
Tax increment financing	572,962	376,635	212,667	184,343	27,585	95,832	81,320
Other city tax	711,146	497,691	428,365	382,467	380,556	-	-
Licenses and permits	41,134	46,467	62,104	100,410	32,149	16,254	15,982
Use of money and property	137,870	61,782	34,574	31,856	34,355	113,075	94,280
Intergovernmental	685,306	438,881	912,363	423,941	402,198	495,575	412,310
Charges for service	87,682	49,911	45,666	28,979	10,086	110,417	97,300
Special assessments	-	536	3,338	4,956	7,158	62,792	63,411
Miscellaneous	133,945	109,978	95,589	85,717	93,012	31,296	20,517
Total	\$ 3,851,233	2,870,947	2,984,461	2,392,211	2,033,658	2,201,918	2,026,120
Disbursements:							
Operating:							
Public safety	\$ 919,725	872,856	802,853	633,691	699,532	387,210	380,300
Public works	405,487	319,333	302,872	370,813	329,723	514,922	500,616
Health and social services	9,951	980	1,350	-	85	99,300	97,311
Culture and recreation	609,128	588,453	534,046	588,998	534,420	78,253	75,244
Community and economic development	-	-	461,828	-	-	11,941	11,829
General government	293,986	265,849	276,834	263,233	183,444	296,714	298,411
Debt service	421,965	339,194	350,693	506,599	465,144	252,111	247,200
Capital projects	1,559,200	301,409	-	71,806	446,888	130,030	108,500
Total	\$ 4,219,442	2,688,074	2,730,476	2,435,140	2,659,236	1,770,481	1,719,411

See accompanying independent auditor's report.

City of Carter Lake

**Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

City of Carter Lake



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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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, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated September 19, 2007. 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 that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

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 (B) is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Carter Lake's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 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.

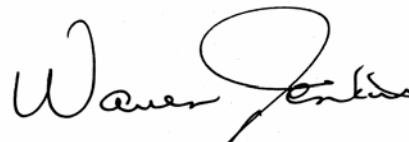
The City of Carter Lake's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Carter Lake's responses and, accordingly, we express no opinion on them.

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

September 19, 2007

City of Carter Lake

Schedule of Findings

Year ended June 30, 2007

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

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

The City does not have written policies for:

- Requiring password changes every 60 to 90 days or to maintain password privacy and confidentiality.
- A disaster recovery plan.

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

Response – We realize that this is an issue we need to address and will develop these policies.

Conclusion – Response accepted.

- (B) Park and Recreation Department Collections – The Park and Recreation Department collects money for various recreation activities. The City does not receive a reconciliation of collections from the Park and Recreation Department and money is not always deposited timely. In one instance tested, cash collections of approximately \$5,508 received during one weekend were not deposited until Tuesday of the following week.

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. In addition, collections should be deposited in a timely manner.

Response – We will approach the new Council to see if they want to make changes.

Conclusion – Response acknowledged. The City should request a reconciliation as part of the internal control over Park and Recreation Department collections and also ensure collections are deposited in a timely manner.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Carter Lake

Schedule of Findings

Year ended June 30, 2007

Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the health and social services, debt service and capital projects functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – We will budget adequate amounts in the future. We had some classification variances between what was budgeted and what was actually charged to each budget line item.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – Deposits and investments were in compliance with Chapters 12B and 12C of the Code of Iowa and the City’s investment policy.
- (8) Revenue Notes – The City has established the sinking and reserve accounts required by the urban renewal tax increment financing revenue note resolutions.

City of Carter Lake

Schedule of Findings

Year ended June 30, 2007

- (9) Excessive Insurance Levy – The City levies property tax to pay for tort liability insurance premiums in the General Fund. For the year ended June 30, 2007, the City collected \$101,088 from this levy and paid \$63,113 for tort liability insurance, leaving a balance of \$37,975 in excess taxes levied.

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

Response – We believe we have adjusted this in next year’s budget to take care of this situation.

Conclusion – Response accepted.

- (10) Tax Increment Financing (TIF) – The City receives incremental property tax to aid economic development in Carter Lake Urban Renewal Area IV. In accordance with the development agreement, payments to developers shall be in an amount which represents 50% of the incremental property tax received by the City. The development agreement does not address the disposition of the remaining 50%.

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

The City should consult legal counsel to determine the disposition of this issue.

Response – The City of Carter Lake has recently worked on the resolution of this matter. We will address your recommendation in the current fiscal year.

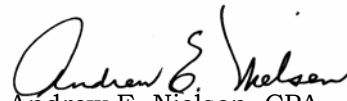
Conclusion – Response accepted.

City of Carter Lake

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Paul F. Kearney, CGFM, Senior Auditor
James R. Wittenwyler, Assistant Auditor
William J. Hanson, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State