

CITY OF CARTER LAKE
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2013

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City of Carter Lake

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------|-----------------|---------------------|
| Russell Kramer | Mayor | January 2014 |
| Dave Huey | Council Member | January 2014 |
| Tim Parker | Council Member | January 2014 |
| Barbara Melonis | Council Member | January 2014 |
| Edward Aldmeyer | Council Member | January 2016 |
| Barb Hawkins | Council Member | January 2016 |
| Doreen Mowery | Clerk/Treasurer | January 2014 |
| Lisa Ruehle | Deputy Clerk | Indefinite |
| Joe Thornton | City Attorney | January 2014 |



Diane McGrain, CPA
Jim Menard, CPA

November 5, 2013

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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.

Continued...

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2013, 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.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Carter Lake's basic financial statements. We previously audited the financial statements for the three years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the six years ended June 30, 2009 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The 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.

Continued...

November 5, 2013
City of Carter Lake
Independent Auditors' Report

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 28 through 29 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2013 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, 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Carter Lake's internal control over financial reporting and compliance.

Schroer & Associates, PC

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, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 Financial Highlights

- The City's total receipts for governmental activities decreased approximately \$379,000 from fiscal year 2012 to 2013. Tax increment financing receipts decreased approximately \$484,000, and other city tax increased \$111,000.
- Disbursements of the City's governmental activities decreased approximately \$1,752,000 from fiscal year 2012 to fiscal year 2013. Capital projects decreased \$624,000, community and economic development decreased approximately \$382,000, and general government decreased approximately \$720,000.
- The City's total cash basis net position increased by \$777,000 from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities increased approximately \$587,000 and the cash basis net position of the business type activities increased by \$190,000.

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 Position. 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.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the non-major 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, the reader should keep in mind the limitation 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 Position reports information which helps answer this question.

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

The Cash Basis Statement of Activities and Net Position 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 water works, the sanitary sewer system, garbage and storm sewer activities. These activities are financed primarily by user charges.

Fund Financial Statements

The city has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include 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 Storm Sewer funds, all considered to be major funds of the City.

The required financial statements for proprietary funds include 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, by \$587,000 to \$2,259,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

| Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands) | | |
|---|---------------------|-----------------|
| | Year ended June 30, | |
| | 2013 | 2012 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service | \$ 208 | \$ 214 |
| Operating grants, contributions and restricted interest | 1,185 | 1,073 |
| Capital grants, contributions and restricted interest | 349 | 518 |
| General receipts: | | |
| Property tax | 1,506 | 1,525 |
| Tax increment financing | 575 | 1,059 |
| Local option sales tax | 454 | 424 |
| Other city tax | 531 | 420 |
| Grants and contributions not restricted to specific purposes | 7 | 4 |
| Unrestricted interest on investments | 2 | 4 |
| Other general receipts | 45 | - |
| Total receipts | <u>4,862</u> | <u>5,241</u> |
| Disbursements: | | |
| Public safety | 1,196 | 1,290 |
| Public works | 403 | 409 |
| Culture and recreation | 753 | 710 |
| Community and economic development | 218 | 600 |
| General government | 427 | 1,147 |
| Debt service | 869 | 838 |
| Capital projects | 409 | 1,033 |
| Total disbursements | <u>4,275</u> | <u>6,027</u> |
| Change in cash basis net position before transfers | 587 | (786) |
| Transfers, net | <u>-</u> | <u>15</u> |
| Change in cash basis net position | 587 | (771) |
| Cash basis net position beginning of year | <u>1,672</u> | <u>2,443</u> |
| Cash basis net position end of year | <u>\$ 2,259</u> | <u>\$ 1,672</u> |

Total governmental activities receipts for the fiscal year were approximately \$4,862,000 compared to \$5,241,000 last year. This decrease was due to a decrease in tax increment financing receipts.

The cost of all governmental activities this year was approximately \$4,275,000, compared to \$6,027,000 last year. This decrease was due to expenses in 2012 for the 2011 flood.

| Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands) | | |
|--|---------------------|---------------|
| | Year ended June 30, | |
| | 2013 | 2012 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service | | |
| Water | \$ 500 | \$ 391 |
| Sewer | 472 | 412 |
| Garbage | 102 | 135 |
| Storm sewer | 59 | - |
| Total receipts | <u>1,133</u> | <u>938</u> |
| Disbursements: | | |
| Water | 442 | 467 |
| Sewer | 358 | 477 |
| Garbage | 140 | 131 |
| Storm sewer | 3 | - |
| Total disbursements | <u>943</u> | <u>1,075</u> |
| Change in cash basis net position before transfers | 190 | (137) |
| Transfers, net | <u>-</u> | <u>(15)</u> |
| Change in cash basis net position | 190 | (152) |
| Cash basis net position beginning of year | <u>932</u> | <u>1,084</u> |
| Cash basis net position end of year | <u>\$ 1,122</u> | <u>\$ 932</u> |

Total business type activities charges for services receipts for the fiscal year were \$1,133,000 compared to \$938,000 last year. The cash balance increased approximately \$190,000 from the prior year. Receipts were up \$195,000 due to the increase in water rates and collection of storm sewer fees. Disbursements decreased \$132,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Carter Lake completed the year, its governmental funds reported a combined fund balance of \$2,259,011, an increase of \$586,999 from last year's balance of \$1,672,012. 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 \$582,723 to \$723,665. The General Fund receipts were \$35,976 more than budgeted due to increased court fines, building permits, and equipment sales. General Fund disbursements were \$84,680 less than budgeted. Wages were less than budgeted in the police department and senior center. Grant funds available were less than anticipated, therefore expenditures were reduced.
- The Special Revenue, Tax Increment Financing Fund cash balance decreased \$51,817 to \$437,340. The decrease is due to Urban Renewal TIF Area #2 projects coming to an end. Expenditures for urban revitalization projects will eventually deplete the cash balance in this fund.
- The Debt Service Fund increased \$878 to \$342,016.

- The Capital Projects Fund decreased \$30,303 to a cash balance of \$333,587. The beginning cash funds were spent on the Locust Street project as its construction was completed.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$58,697 to \$229,276. Water rates were increased to cover current expenditures and to build a cash reserve equal to approximately 25% of the next year’s projected expenditures.
- The Sewer Fund cash balance increased \$113,684 to \$429,285. Sewer rates were increased to cover current expenditures and to build a cash reserve equal to approximately 25% of the next year’s projected expenditures.
- The Garbage Fund cash balance decreased \$38,581 to \$406,944. Rates were reduced because costs have declined. We have adjusted rates to reduce the reserve to approximately 25% of the next year’s projected expenditures.
- The Storm Sewer Fund increased \$56,116. Storm Sewer rates were implemented to cover current expenses and to build up a reserve to cover future projects and expenses.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved March 4, 2013 and resulted in an increase in disbursements of \$531,820. The increase was primarily to account for insurance claims expenses, purchase lake weed harvesters, account for additional lake projects, and pay final engineering fees on the Locust Street project.

The City receipts were \$52,068 more than budgeted due to FEMA funds received, insurance settlements received, DNR contributions and increased proprietary fees.

With the amendment, total disbursements were \$544,150 less than budgeted. The actual disbursement was less than the amended budget. Disbursements were less than projected by \$84,680 in the General Fund, \$12,060 in the Parks CIP Fund, \$119,793 in the Sewer Fund, \$55,993 in the Water Fund, \$37,870 in the Road Use Tax Fund, \$43,990 in the Employees Benefits Fund and \$68,127 in the Urban Renewal Fund.

DEBT ADMINISTRATION

At June 30, 2013, the City had approximately \$7,035,000 in short and long-term debt outstanding, compared to approximately \$7,635,000 last year as shown below:

| Outstanding Debt at Year End (Expressed in Thousands) | | |
|--|---------------------|-----------------|
| | Year ended June 30, | |
| | 2013 | 2012 |
| General obligation notes | \$ 3,700 | \$ 4,230 |
| Urban renewal tax increment financing revenue notes | - | 20 |
| Local option sales tax revenue bonds | 3,335 | 3,385 |
| | <u>\$ 7,035</u> | <u>\$ 7,635</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 \$7,035,000 is below its constitutional debt limit of approximately \$10 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Carter Lake's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates, and fees that will be charged for various City activities.

Taxes are levied at the maximum of \$8.10/1000 valuation. We will monitor the effects of the new tax provisions for rollback on commercial and industrial properties. The water, sewer and storm water rates will be reviewed annually during the budget process to evaluate the rates that were implemented in November 2012.

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.

City of Carter Lake
Basic Financial Statements

City of Carter Lake
Cash Basis Statement of Activities and Net Position
As of and for the year ended June 30, 2013

| | Disbursements | Program Receipts | | | Net (Disbursement) Receipts and Changes in Cash Basis Net Assets | | |
|---|---------------|---------------------|---|---|--|--------------------------|-------------|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest | Governmental Activities | Business Type Activities | Total |
| Functions/Programs: | | | | | | | |
| Governmental activities: | | | | | | | |
| Public safety | \$ 1,195,821 | 85,556 | 123,244 | - | (987,021) | - | (987,021) |
| Public works | 402,563 | 51,391 | 362,474 | - | 11,302 | - | 11,302 |
| Culture and recreation | 752,507 | 66,652 | 145,320 | - | (540,535) | - | (540,535) |
| Community and economic development | 217,701 | - | 21,044 | - | (196,657) | - | (196,657) |
| General government | 426,793 | 4,715 | 523,703 | - | 101,625 | - | 101,625 |
| Debt service | 869,284 | - | 8,860 | - | (860,424) | - | (860,424) |
| Capital projects | 408,827 | - | - | 348,524 | (60,303) | - | (60,303) |
| Total governmental activities | 4,273,496 | 208,314 | 1,184,645 | 348,524 | (2,532,013) | - | (2,532,013) |
| Business type activities: | | | | | | | |
| Water | 441,198 | 499,895 | - | - | - | 58,697 | 58,697 |
| Sewer | 358,143 | 471,827 | - | - | - | 113,684 | 113,684 |
| Garbage | 140,438 | 101,857 | - | - | - | (38,581) | (38,581) |
| Storm sewer | 2,828 | 58,944 | - | - | - | 56,116 | 56,116 |
| Total business type activities | 942,607 | 1,132,523 | - | - | - | 189,916 | 189,916 |
| Total | \$ 5,216,103 | 1,340,837 | 1,184,645 | 348,524 | (2,532,013) | 189,916 | (2,342,097) |
| General Receipts: | | | | | | | |
| Property tax levied for: | | | | | | | |
| General purposes | | | | | 995,964 | - | 995,964 |
| Employee benefits | | | | | 358,912 | - | 358,912 |
| Debt service | | | | | 151,324 | - | 151,324 |
| Tax increment financing | | | | | 574,767 | - | 574,767 |
| Local option sales tax | | | | | 453,673 | - | 453,673 |
| Other city tax | | | | | 531,205 | - | 531,205 |
| Grants and contributions not restricted to specific purpose | | | | | 6,813 | - | 6,813 |
| Unrestricted interest on investments | | | | | 1,354 | - | 1,354 |
| Sale of general fixed assets | | | | | 45,000 | - | 45,000 |
| Total general receipts and transfers | | | | | 3,119,012 | - | 3,119,012 |
| Change in cash basis net position | | | | | 586,999 | 189,916 | 776,915 |
| Cash basis net position beginning of year | | | | | 1,672,012 | 931,705 | 2,603,717 |
| Cash basis net position end of year | | | | | \$ 2,259,011 | 1,121,621 | 3,380,632 |
| Cash Basis Net Position | | | | | | | |
| Restricted: | | | | | | | |
| Expendable: | | | | | | | |
| Urban renewable purposes | | | | | \$ 437,340 | - | 437,340 |
| Debt service | | | | | 342,016 | - | 342,016 |
| Capital projects | | | | | 333,567 | - | 333,567 |
| Other purposes | | | | | 422,423 | - | 422,423 |
| Unrestricted | | | | | 723,665 | 1,121,621 | 1,845,286 |
| Total cash basis net position | | | | | \$ 2,259,011 | 1,121,621 | 3,380,632 |

See notes to financial statements.

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, 2013

| | General | Special Revenue Tax Increment Financing | Debt Service | Capital Projects | Other Nonmajor Governmental Funds | Total |
|---|-------------------|---|-----------------|---------------------|--|------------------|
| Receipts | | | | | | |
| Property tax | \$ 995,964 | - | 151,324 | - | 358,912 | 1,506,200 |
| Tax increment financing | - | 574,767 | - | - | - | 574,767 |
| Other city tax | 574,288 | - | 77,231 | - | 333,359 | 984,878 |
| Licenses and permits | 30,017 | - | - | - | - | 30,017 |
| Use of money and property | 25,019 | - | 8,860 | - | 118 | 33,997 |
| Intergovernmental | 606,099 | - | - | 338,624 | 362,474 | 1,307,197 |
| Charges for service | 107,353 | - | - | - | - | 107,353 |
| Special assessments | 6,697 | - | - | - | - | 6,697 |
| Miscellaneous | 226,151 | 1,540 | - | 9,900 | 26,798 | 264,389 |
| Total receipts | <u>2,571,588</u> | <u>576,307</u> | <u>237,415</u> | <u>348,524</u> | <u>1,081,661</u> | <u>4,815,495</u> |
| Disbursements | | | | | | |
| Operating: | | | | | | |
| Public safety | 952,717 | - | - | - | 243,104 | 1,195,821 |
| Public works | 6,207 | - | - | - | 396,356 | 402,563 |
| Culture and recreation | 660,912 | - | - | - | 91,595 | 752,507 |
| Community and economic development | - | 217,701 | - | - | - | 217,701 |
| General government | 384,029 | - | - | - | 42,764 | 426,793 |
| Debt service | - | - | 869,284 | - | - | 869,284 |
| Capital projects | - | - | - | 408,827 | - | 408,827 |
| Total disbursements | <u>2,003,865</u> | <u>217,701</u> | <u>869,284</u> | <u>408,827</u> | <u>773,819</u> | <u>4,273,496</u> |
| Excess (deficiency) of receipts over (under) disbursements | 567,723 | 358,606 | (631,869) | (60,303) | 307,842 | 541,999 |
| Other financing sources (uses): | | | | | | |
| Sale of general fixed assets | 45,000 | - | - | - | - | 45,000 |
| Operating transfers in | - | - | 632,747 | 30,000 | - | 662,747 |
| Operating transfers out | (30,000) | (410,423) | - | - | (222,324) | (662,747) |
| | <u>15,000</u> | <u>(410,423)</u> | <u>632,747</u> | <u>30,000</u> | <u>(222,324)</u> | <u>45,000</u> |
| Net change in cash balances | 582,723 | (51,817) | 878 | (30,303) | 85,518 | 586,999 |
| Cash balances beginning of year | <u>140,942</u> | <u>489,157</u> | <u>341,138</u> | <u>363,870</u> | <u>336,905</u> | <u>1,672,012</u> |
| Cash balances end of year | <u>\$ 723,665</u> | <u>437,340</u> | <u>342,016</u> | <u>333,567</u> | <u>422,423</u> | <u>2,259,011</u> |
| Cash Basis Fund Balances | | | | | | |
| Restricted for: | | | | | | |
| Urban renewal purposes | - | 437,340 | - | - | - | 437,340 |
| Debt service | - | - | 342,016 | - | - | 342,016 |
| Capital projects | - | - | - | 333,567 | - | 333,567 |
| Other purposes | - | - | - | - | 422,423 | 422,423 |
| Unassigned | <u>723,665</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>723,665</u> |
| Total cash basis fund balances | <u>\$ 723,665</u> | <u>437,340</u> | <u>342,016</u> | <u>333,567</u> | <u>422,423</u> | <u>2,259,011</u> |

See notes to financial statements.

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, 2013

| | Enterprise Funds | | | | |
|---------------------------------|-------------------|----------------|----------------|----------------|------------------|
| | Water | Sewer | Garbage | Storm Sewer | Total |
| Operating receipts: | | | | | |
| Charges for service | \$ 491,647 | 471,827 | 101,857 | 58,944 | 1,124,275 |
| Miscellaneous | 8,248 | - | - | - | 8,248 |
| Total operating receipts | <u>499,895</u> | <u>471,827</u> | <u>101,857</u> | <u>58,944</u> | <u>1,132,523</u> |
| Operating disbursements: | | | | | |
| Business type activities | <u>441,198</u> | <u>358,143</u> | <u>140,438</u> | <u>2,828</u> | <u>942,607</u> |
| Net change in cash balances | 58,697 | 113,684 | (38,581) | 56,116 | 189,916 |
| Cash balances beginning of year | <u>170,579</u> | <u>315,601</u> | <u>445,525</u> | <u>-</u> | <u>931,705</u> |
| Cash balances end of year | <u>\$ 229,276</u> | <u>429,285</u> | <u>406,944</u> | <u>56,116</u> | <u>1,121,621</u> |
| Cash Basis Fund Balances | | | | | |
| Unrestricted | <u>\$ 229,276</u> | <u>429,285</u> | <u>406,944</u> | <u>56,116</u> | <u>1,121,621</u> |

See notes to financial statements.

City of Carter Lake
Notes to Financial Statements
June 30, 2013

NOTE (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, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, garbage and storm sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Carter Lake has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

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

Blended Component Unit

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

Jointly Governed Organizations

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

City of Carter Lake
Notes to Financial Statements
June 30, 2013

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position 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 Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net assets. Net assets are reported in categories/components:

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

The Cash Basis Statement of Activities and Net Position 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 and emergency levies 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 that are not paid from other funds.

City of Carter Lake
Notes to Financial Statements
June 30, 2013

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

Special Revenue:

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

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

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

The City reports the following major proprietary funds:

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

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

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

The Enterprise Storm Sewer Fund accounts for the operation and maintenance of the City's storm sewer system.

C. Measurement Focus and Basis of Accounting

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

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

City of Carter Lake
Notes to Financial Statements
June 30, 2013

NOTE (1) Summary of Significant Accounting Policies - Continued

C. Measurement Focus and Basis of Accounting - Continued

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

F. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2011, to compute the amounts which became liens on property on July 1, 2012. These taxes were due and payable in two installments on September 30, 2012 and March 31, 2013, at the Pottawattamie County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

City of Carter Lake
Notes to Financial Statements
June 30, 2013

NOTE (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2013 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.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

NOTE (3) Bonds and Notes Payable

Annual debt service requirements to maturity of general obligation and local option sales tax revenue bonds are as follows:

| Year Ending June 30, | General Obligation Bonds & Notes | | Local Option Sales Tax Revenue Bonds | | Total | |
|-------------------------|-------------------------------------|----------------|--|------------------|------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2014 | \$ 535,000 | 130,345 | 55,000 | 169,963 | 590,000 | 300,308 |
| 2015 | 540,000 | 113,549 | 55,000 | 167,625 | 595,000 | 281,174 |
| 2016 | 480,000 | 96,608 | 80,000 | 165,219 | 560,000 | 261,827 |
| 2017 | 485,000 | 81,074 | 80,000 | 161,619 | 565,000 | 242,693 |
| 2018 | 500,000 | 64,856 | 85,000 | 158,019 | 585,000 | 222,875 |
| 2019-2023 | 1,160,000 | 80,611 | 500,000 | 725,182 | 1,660,000 | 805,793 |
| 2024-2028 | - | - | 630,000 | 589,995 | 630,000 | 589,995 |
| 2029-2033 | - | - | 810,000 | 410,482 | 810,000 | 410,482 |
| 2034-2038 | - | - | 1,040,000 | 174,913 | 1,040,000 | 174,913 |
| | <u>\$ 3,700,000</u> | <u>567,043</u> | <u>3,335,000</u> | <u>2,723,017</u> | <u>7,035,000</u> | <u>3,290,060</u> |

Interest costs paid during the year ended June 30, 2013 totaled \$288,435.

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately \$9,996,000 which was not exceeded during the year ended June 30, 2013.

City of Carter Lake
Notes to Financial Statements
June 30, 2013

NOTE (3) Bonds and Notes Payable – Continued

Local Option Sales Tax Revenue Bonds

In July 2008, the City issued local option sales tax revenue bonds for the purpose of constructing a new City Hall. Local option sales tax receipts are generally projected to produce 100% of the debt service requirements over the life of the bonds. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitations of the City. The resolution providing for the issuance of the revenue bonds includes a provision which requires sufficient transfers shall be made to a separate bond reserve account to cover the maximum annual amount of principal and interest coming due. Total principal and interest remaining on the revenue bonds is \$6,058,017. For the current year, principal and interest paid and total local option sales tax receipts were \$222,087 and \$453,673, respectively.

The City is in compliance with the provisions of the bond and note resolutions.

NOTE (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 5.78% of their annual covered salary and the City is required to contribute 8.67% 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 contribution to IPERS for the years ended June 30, 2013, 2012 and 2011, were \$124,789, \$115,338, and \$98,619, respectively, equal to the required contributions for each year.

NOTE (5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 26 active and 1 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with TrueNorth. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$458 for single coverage. For the year ended June 30, 2013, the City contributed \$743 and plan members eligible for benefits contributed \$1,495 to the plan.

City of Carter Lake
Notes to Financial Statements
June 30, 2013

NOTE (6) 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, 2013, primarily relating to the General Fund and Proprietary Funds are as follows:

| Type of Benefit | Amount |
|-------------------|-------------------|
| Vacation | \$ 39,000 |
| Sick leave | 99,000 |
| Compensatory time | 17,000 |
| | \$ 155,000 |

This liability is computed on rates of pay effective as of June 30, 2013.

NOTE (7) 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 679 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% 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.

City of Carter Lake
Notes to Financial Statements
June 30, 2013

NOTE (7) Risk Management - Continued

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 annual contributions to the Pool for the year ended June 30, 2013 were \$86,303.

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. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool, up to \$250,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that 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 that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claim shall be the obligation of the respective individual member. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance company 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% 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 other insurers for coverage associated with workman's 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.

City of Carter Lake
Notes to Financial Statements
June 30, 2013

NOTE (8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|--------------------|-------------------------|--------------------------|
| Debt Service | Special Revenue: | |
| | Tax Increment Financing | \$ 410,423 |
| | Local Option Sales Tax | <u>222,324</u> |
| | | 632,747 |
| Capital Projects | General | <u>30,000</u> |
| | | \$ <u><u>662,747</u></u> |

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

NOTE (9) Development and Rebate Agreements

The City entered into three separate development and rebate agreements during the years ended June 20, 2000 and June 30, 2004, to assist in urban renewal projects. The City agreed to rebate incremental tax paid by the developer in exchange for public improvement infrastructure constructed by the developer as set forth in the urban renewal plans.

In accordance with the first fiscal year 2000 development and rebate agreement, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which property tax on the completed value of the improvements is first paid. The total amount rebated is not to exceed the cost of the public improvements paid for by the developer, which is \$1,650,000. 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, 2013, the City paid the developer \$72,909 and allocated \$55,001 for low to moderate income housing projects from the tax increment financing received.

In accordance with the second fiscal year 2000 development and rebate agreement, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated up to project costs of \$400,000 for a period not to exceed twelve years beginning with the tax year in which the property tax on the completed value of the improvements is first paid. This agreement is paid in full.

In accordance with the fiscal year 2004 development and rebate agreement, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of fifteen years beginning with the tax year in which the 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 total projected costs of \$294,000. During the year ended June 30, 2013, the City paid the developer \$17,950.

City of Carter Lake
Notes to Financial Statements
June 30, 2013

NOTE (10) Related Party Transactions

The City had transactions between the City and City officials totaling \$3,182 during the year ended June 30, 2013.

NOTE (11) Construction Commitments

At June 30, 2013, the City had the following construction commitments:

| | <u>Estimated Contract Amount</u> | <u>Paid to Date</u> | <u>Remaining Commitment</u> | <u>Retainage Payable</u> |
|---------------------------------------|--|-------------------------|---------------------------------|------------------------------|
| City Hall Project Construction | \$ 3,000,940 | 2,981,680 | 19,260 | 17,030 |
| Locust Street Project Construction | \$ 3,599,492 | 3,410,106 | <u>189,386</u> | <u>30,000</u> |
| | | | \$ <u>208,646</u> | <u>47,030</u> |

The City is holding back payment of the remaining commitments noted due to disputes on repairs needed and budget overruns.

Other 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
 Other Information
 Year ended June 30, 2013

| | Governmental | Proprietary | Less Funds | Total | Budgeted Amounts | | Final to Actual Variance |
|--|---------------------|------------------|-----------------------------|------------------|------------------|------------------|--------------------------|
| | Funds Actual | Funds Actual | not Required to be Budgeted | | Original | Final | |
| Receipts | | | | | | | |
| Property tax | \$ 1,506,200 | - | - | 1,506,200 | 1,539,638 | 1,539,638 | (33,438) |
| Tax increment financing collections | 574,767 | - | - | 574,767 | 748,826 | 545,069 | 29,698 |
| Other city tax | 984,878 | - | - | 984,878 | 939,648 | 954,254 | 30,624 |
| Licenses and permits | 30,017 | - | - | 30,017 | 47,165 | 49,165 | (19,148) |
| Use of money and property | 33,997 | - | - | 33,997 | 38,007 | 38,007 | (4,010) |
| Intergovernmental | 1,307,197 | - | - | 1,307,197 | 635,194 | 963,083 | 344,114 |
| Charges for service | 107,353 | 1,124,275 | 118 | 1,231,510 | 1,022,450 | 1,189,228 | 42,282 |
| Special assessments | 6,697 | - | - | 6,697 | - | - | 6,697 |
| Miscellaneous | 264,389 | 8,248 | 26,798 | 245,839 | 89,000 | 590,590 | (344,751) |
| Total receipts | <u>4,815,495</u> | <u>1,132,523</u> | <u>26,916</u> | <u>5,921,102</u> | <u>5,059,928</u> | <u>5,869,034</u> | <u>52,068</u> |
| Disbursements | | | | | | | |
| Public safety | 1,195,821 | - | 23,020 | 1,172,801 | 1,280,498 | 1,214,405 | 41,604 |
| Public works | 402,563 | - | - | 402,563 | 463,994 | 443,426 | 40,863 |
| Culture and recreation | 752,507 | - | - | 752,507 | 777,648 | 812,754 | 60,247 |
| Community and economic developm | 217,701 | - | - | 217,701 | 142,721 | 291,075 | 73,374 |
| General government | 426,793 | - | - | 426,793 | 349,786 | 438,873 | 12,080 |
| Debt service | 869,284 | - | - | 869,284 | 894,436 | 873,036 | 3,752 |
| Capital projects | 408,827 | - | - | 408,827 | 195,526 | 557,453 | 148,626 |
| Business type activities | - | 942,607 | - | 942,607 | 1,100,804 | 1,106,211 | 163,604 |
| Total disbursements | <u>4,273,496</u> | <u>942,607</u> | <u>23,020</u> | <u>5,193,083</u> | <u>5,205,413</u> | <u>5,737,233</u> | <u>544,150</u> |
| Excess (deficiency) of receipts over (under) disbursements | 541,999 | 189,916 | 3,896 | 728,019 | (145,485) | 131,801 | 596,218 |
| Other financing sources, net: | <u>45,000</u> | <u>-</u> | <u>-</u> | <u>45,000</u> | <u>-</u> | <u>-</u> | <u>45,000</u> |
| Excess of receipts and other financing sources over disbursements and other financing uses | 586,999 | 189,916 | 3,896 | 773,019 | (145,485) | 131,801 | 641,218 |
| Balances beginning of year | <u>1,672,012</u> | <u>931,705</u> | <u>31,151</u> | <u>2,572,566</u> | <u>2,625,275</u> | <u>2,603,717</u> | <u>(31,151)</u> |
| Balances end of year | <u>\$ 2,259,011</u> | <u>1,121,621</u> | <u>35,047</u> | <u>3,345,585</u> | <u>2,479,790</u> | <u>2,735,518</u> | <u>610,067</u> |

See accompanying independent auditors' report.

City of Carter Lake
Notes to Other Information – Budgetary Reporting
June 30, 2013

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$531,820. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements did not exceed the amended budgeted amounts.

Supplementary Information

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, 2013

| | Special Revenue | | | | | | Total |
|---|-----------------|------------------------------|----------------------|-----------------------|---------------------------|--------------------------------|------------------|
| | Road Use Tax | Local Option Sales Tax | Employee Benefits | Police Forfeitures | Info USA CEBA Grant | Carter Lake Smoke Eaters | |
| Receipts | | | | | | | |
| Property tax | \$ - | - | 358,912 | - | - | - | 358,912 |
| Other city tax | 98,945 | 222,324 | 12,090 | - | - | - | 333,359 |
| Use of money and property | - | - | - | - | - | 118 | 118 |
| Intergovernmental | 362,474 | - | - | - | - | - | 362,474 |
| Charges for services | - | - | - | - | - | - | - |
| Miscellaneous | - | - | - | - | - | 26,798 | 26,798 |
| Total receipts | 461,419 | 222,324 | 371,002 | - | - | 26,916 | 1,081,661 |
| Disbursements: | | | | | | | |
| Operating: | | | | | | | |
| Public safety | - | - | 220,084 | - | - | 23,020 | 243,104 |
| Public works | 396,356 | - | - | - | - | - | 396,356 |
| Culture and recreation | - | - | 91,595 | - | - | - | 91,595 |
| General government | - | - | 42,764 | - | - | - | 42,764 |
| Total disbursements | 396,356 | - | 354,443 | - | - | 23,020 | 773,819 |
| Excess (deficiency) of receipts over (under) disbursements | 65,063 | 222,324 | 16,559 | - | - | 3,896 | 307,842 |
| Other financing uses: | | | | | | | |
| Operating transfers out | | (222,324) | | | | | (222,324) |
| Net change in cash balances | 65,063 | - | 16,559 | - | - | 3,896 | 85,518 |
| Cash balances beginning of year | 101,892 | - | 162,755 | 3,085 | 38,022 | 31,151 | 336,905 |
| Cash balances end of year | \$ 166,955 | - | 179,314 | 3,085 | 38,022 | 35,047 | 422,423 |
| Cash Basis Fund Balances | | | | | | | |
| Restricted for other purposes | \$ 166,955 | - | 179,314 | 3,085 | 38,022 | 35,047 | 422,423 |

See accompanying independent auditors' report.

City of Carter Lake
 Schedule of Indebtedness
 Year ended June 30, 2013

| <u>Obligation</u> | <u>Date of Issue</u> | <u>Interest Rates</u> | <u>Amount Originally Issued</u> | <u>Balance Beginning of Year</u> | <u>Issued During Year</u> | <u>Redeemed During Year</u> | <u>Balance End of Year</u> | <u>Interest Paid</u> | <u>Interest Due and Unpaid</u> |
|---|----------------------|-----------------------|---------------------------------|----------------------------------|---------------------------|-----------------------------|----------------------------|----------------------|--------------------------------|
| General obligation notes: | | | | | | | | | |
| Capital loan | Jul 1, 2008 | 4.00-4.60% | \$ 1,055,000 | \$ 1,055,000 | - | 110,000 | 945,000 | 45,025 | - |
| Capital loan | Dec 16, 2010 | 2.00-2.75% | 3,520,000 | <u>3,175,000</u> | - | <u>420,000</u> | <u>2,755,000</u> | <u>69,923</u> | |
| | | | | <u>\$ 4,230,000</u> | <u>-</u> | <u>530,000</u> | <u>3,700,000</u> | <u>114,948</u> | <u>-</u> |
| Urban renewal tax increment financing revenue notes | | | | | | | | | |
| | Feb 1, 1999 | 7.00% | \$ 200,000 | <u>\$ 20,000</u> | <u>-</u> | <u>20,000</u> | <u>-</u> | <u>1,400</u> | |
| Local option sales tax revenue bonds | | | | | | | | | |
| | Jul 1, 2008 | 4.00-5.50% | \$ 3,580,000 | <u>\$ 3,385,000</u> | <u>-</u> | <u>50,000</u> | <u>3,335,000</u> | <u>172,087</u> | |

See accompanying independent auditors' report.

City of Carter Lake
Bond and Note Maturities
June 30, 2013

| General Obligation Notes | | | | | | Local Option Sales Tax | | |
|----------------------------|------------------------------------|-------------------|--------------------------------------|---------------------|---------------------|----------------------------|-------------------------------------|---------------------|
| Year Ending June 30, | Capital Loan Issued Jul 1, 2008 | | Capital Notes Issued Dec 16, 2010 | | Total | Year Ending June 30, | Revenue Bonds Issued Jul 1, 2008 | |
| | Interest Rates | Amount | Interest Rates | Amount | | | Interest Rates | Amount |
| 2014 | 4.00% | \$ 110,000 | 2.00% | \$ 425,000 | \$ 535,000 | 2014 | 4.250% | \$ 55,000 |
| 2015 | 4.00% | 110,000 | 2.00% | 430,000 | 540,000 | 2015 | 4.375% | 55,000 |
| 2016 | 4.25% | 115,000 | 2.00% | 365,000 | 480,000 | 2016 | 4.500% | 80,000 |
| 2017 | 4.25% | 115,000 | 2.10% | 370,000 | 485,000 | 2017 | 4.500% | 80,000 |
| 2018 | 4.30% | 120,000 | 2.30% | 380,000 | 500,000 | 2018 | 4.625% | 85,000 |
| 2019 | 4.40% | 120,000 | 2.50% | 390,000 | 510,000 | 2019 | 4.750% | 90,000 |
| 2020 | 4.50% | 120,000 | 2.75% | 395,000 | 515,000 | 2020 | 4.750% | 95,000 |
| 2021 | 4.60% | 135,000 | | | 135,000 | 2021 | 4.750% | 100,000 |
| | | <u>\$ 945,000</u> | | <u>\$ 2,755,000</u> | <u>\$ 3,700,000</u> | 2022 | 4.875% | 105,000 |
| | | | | | | 2023 | 4.875% | 110,000 |
| | | | | | | 2024 | 4.875% | 115,000 |
| | | | | | | 2025 | 5.125% | 120,000 |
| | | | | | | 2026 | 5.125% | 125,000 |
| | | | | | | 2027 | 5.125% | 130,000 |
| | | | | | | 2028 | 5.125% | 140,000 |
| | | | | | | 2029 | 5.250% | 145,000 |
| | | | | | | 2030 | 5.250% | 155,000 |
| | | | | | | 2031 | 5.250% | 160,000 |
| | | | | | | 2032 | 5.250% | 170,000 |
| | | | | | | 2033 | 5.250% | 180,000 |
| | | | | | | 2034 | 5.250% | 185,000 |
| | | | | | | 2035 | 5.250% | 195,000 |
| | | | | | | 2036 | 5.250% | 210,000 |
| | | | | | | 2037 | 5.500% | 220,000 |
| | | | | | | 2038 | 5.500% | 230,000 |
| | | | | | | | | <u>\$ 3,335,000</u> |

See accompanying independent auditors' report.

City of Carter Lake
 Schedule of Receipts By Source and Disbursements By Function -
 All Governmental Funds
 For the Last Ten Years

| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|-------------------------------------|---------------------|------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Receipts | | | | | | | | | | |
| Property tax | \$ 1,506,200 | 1,474,829 | 1,433,556 | 1,291,412 | 1,371,397 | 1,338,413 | 1,481,188 | 1,289,066 | 1,189,795 | 1,149,542 |
| Tax increment financing collections | 574,767 | 1,058,673 | 1,057,294 | 761,192 | 666,705 | 560,164 | 572,962 | 376,635 | 212,667 | 184,343 |
| Other city tax | 984,878 | 894,542 | 894,876 | 769,810 | 917,368 | 690,569 | 711,146 | 497,691 | 428,365 | 382,467 |
| Licenses and permits | 30,017 | 30,298 | 29,197 | 50,960 | 44,228 | 38,214 | 41,134 | 46,467 | 62,104 | 100,410 |
| Use of money and property | 33,997 | 37,894 | 43,098 | 48,866 | 92,497 | 97,277 | 137,870 | 61,782 | 34,574 | 31,856 |
| Intergovernmental | 1,307,197 | 1,278,206 | 1,678,490 | 634,227 | 469,175 | 678,524 | 685,306 | 438,881 | 912,363 | 423,941 |
| Charges for service | 107,353 | 123,256 | 139,293 | 157,437 | 99,001 | 74,234 | 87,682 | 49,911 | 45,666 | 28,979 |
| Special assessments | 6,697 | 8,176 | 10,640 | 11,390 | 17,121 | 64,153 | - | 536 | 3,338 | 4,956 |
| Miscellaneous | 264,389 | 335,159 | 189,750 | 164,185 | 182,892 | 274,683 | 133,945 | 109,978 | 95,589 | 85,717 |
| Total | \$ 4,815,495 | 5,241,033 | 5,476,194 | 3,889,479 | 3,860,384 | 3,816,231 | 3,851,233 | 2,870,947 | 2,984,461 | 2,392,211 |
| Disbursements | | | | | | | | | | |
| Operating: | | | | | | | | | | |
| Public safety | \$ 1,195,821 | 1,290,383 | 1,149,328 | 1,035,862 | 1,020,330 | 1,097,329 | 919,725 | 872,856 | 802,853 | 633,691 |
| Public works | 402,563 | 408,739 | 355,473 | 345,078 | 486,637 | 516,466 | 405,487 | 319,333 | 302,872 | 370,813 |
| Health and social services | - | - | 9,835 | 14,007 | 14,522 | 10,065 | 9,951 | 980 | 1,350 | - |
| Culture and recreation | 752,507 | 710,323 | 746,306 | 847,624 | 788,197 | 800,422 | 609,128 | 588,453 | 534,046 | 588,998 |
| Community and economic development | 217,701 | 600,566 | 528,421 | 541,819 | 462,331 | 578,678 | - | - | 461,828 | - |
| General government | 426,793 | 1,146,590 | 413,717 | 352,446 | 302,792 | 324,096 | 293,986 | 265,849 | 276,834 | 263,233 |
| Debt service | 869,284 | 837,908 | 4,065,438 | 528,124 | 674,988 | 385,815 | 421,965 | 339,194 | 350,693 | 506,599 |
| Capital projects | 408,827 | 1,032,791 | 3,120,468 | 1,386,595 | 3,198,281 | 650,395 | 1,559,200 | 301,409 | - | 71,806 |
| Total | \$ 4,273,496 | 6,027,300 | 10,388,986 | 5,051,555 | 6,948,078 | 4,363,266 | 4,219,442 | 2,688,074 | 2,730,476 | 2,435,140 |

See accompanying independent auditors' report.

City of Carter Lake



Diane McGrain, CPA
Jim Menard, CPA

November 5, 2013

Independent Auditors' 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 in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 5, 2013. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Carter Lake's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Carter Lake's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Carter Lake's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Carter Lake's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Continued...

City of Carter Lake
Independent Auditors' Report on
Internal Control and Compliance and Other Matters

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

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 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 Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 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.

City of Carter Lake's Responses to Findings

City of Carter Lake's responses to findings identified in our audit are described in the accompanying Schedule of Findings. City of Carter Lake's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.

Schroer & Associates, PC

City of Carter Lake
Schedule of Findings
Year Ended June 30, 2013

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No matters were reported.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Carter Lake
 Schedule of Findings
 Year Ended June 30, 2013

Part II: Other Findings Related to Statutory Reporting:

II-A-13 Certified Budget – Budgeted disbursements during the year ended June 30, 2013 did not exceed the amended amounts.

II-B-13 Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General’s opinion dated April 25, 1979.

II-C-13 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-13 Business Transactions

Comment – Business transactions between the City and City officials, employees or relatives of City officials are detailed as follows:

| | | | |
|--|----------|----|--------------|
| Barb Melonis, Council Member Part owner of Carter Lake Hardware | Supplies | \$ | 2,871 |
| Dave Huey, Council Member Owner of CD, LLC | Training | | <u>310</u> |
| | | \$ | <u>3,181</u> |

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with one of the council members appear to represent a conflict of interest since the transactions with the individual exceeded \$1,500 during the fiscal year.

Recommendation – The City should seek legal advice on this matter.

Response – We will do this.

Conclusion – Response accepted.

II-E-13 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 that the coverage is adequate for current operations.

II-F-13 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

City of Carter Lake
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Part II: Other Findings Related to Statutory Reporting - Continued:

II-G-13 Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-H-13 Revenue Bonds and Notes

No instances of noncompliance with the revenue note and bond resolutions were noted.

II-I-13 Excess Balances

Comment – The balances in the Enterprise – Sewer, Garbage and Storm Sewer Accounts at June 30, 2013, were in excess of each fund's disbursements during the year.

Recommendation – The City should consider the necessity of maintaining these substantial balances, and where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response – We reduced the garbage fees charged during a prior year. We are maintaining balances in other accounts for anticipated repairs and to establish a 25% reserve for anticipated annual disbursements. We are reviewing this annually at budget time.

Conclusion – Response accepted.

II-J-13 Inactive Capital Projects

Comment – The Capital Projects Fund – Avenue H Account is inactive.

Recommendation – The City should make the appropriate transfer to close the account.

Response – The City plans to use the account in the future to repair the road and costs would be absorbed at that time.

Conclusion – Response accepted.