

CITY OF CRESCO, IOWA
FINANCIAL STATEMENTS
JUNE 30, 2004

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Officials

Name	Title	Term Expires
Elected Officials (Before January, 2004)		
Edward Fontes	Mayor	January, 2004
Robert Barthelme	Mayor Pro Tem	January, 2004
James Daly	Council Member	January, 2006
Lyle Erding	Council Member	January, 2004
John Loveless	Council Member	January, 2004
Duane Omar	Council Member	January, 2006
Elected Officials (After January, 2004)		
Rhonda Hughes	Mayor	January, 2006
Lyle Erding	Mayor Pro Tem	January, 2008
James Daly	Council Member	January, 2006
Dennis Blake	Council Member	January, 2008
John Loveless	Council Member	January, 2008
Duane Omar	Council Member	January, 2006
Appointed Officials		
Sharon Smutzler	Clerk/Treasurer	Indefinite
Marlene Michel	Deputy Clerk	Indefinite
Joseph P. Braun	Attorney	Indefinite
Dennis Cauwels	Public Works Director	Indefinite

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Cresco, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Cresco, Iowa, as of and for the year ended June 30, 2004 which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions 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 that our audit provides a reasonable basis for our opinion.

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 accounting principles generally accepted in the United States of America.

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, discretely presented component unit, the business-type activities, each major fund and the aggregate remaining fund information of the City of Cresco at June 30, 2004, and the respective changes in the cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 9, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences*.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 30 2004 on our consideration of the City of Cresco, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on Pages 4 through 12 and Page 24 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The financial statements and supplemental data for the year ended June 30, 2001 (which is not presented herein) were audited by other auditors in accordance with the standards referred to in the second paragraph of this report who expressed unqualified opinions on those financial statements and supplemental data. We previously audited the financial statements and supplemental data for the years ended June 30, 2003 and 2002 (none of which are presented herein) in accordance with the standards referred to in the second paragraph of this report and expressed unqualified opinions on those financial statements and supplemental data. Other supplemental information included on Pages 25 through 30 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.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
November 30, 2004

City of Cresco, Iowa
Management's Discussion and Analysis
June 30, 2004

The City of Cresco 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, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

Revenue of the City's governmental activities increased approximately \$77,000 from the fiscal 2003 year to the fiscal 2004 year. This increase is due to increases in T.I.F. collections, local option sales tax and special assessments.

Disbursements decreased approximately \$118,000 in fiscal year 2004 from the fiscal year 2003. This change was primarily in the community and economic development function, where more monies were spent on T.I.F. and revolving loans in the fiscal year 2003 than 2004.

The City's total cash basis net assets increased approximately \$343,000 from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$247,000 and the assets of the business-type activities increased by approximately \$96,000.

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 are 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 the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required supplementary information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other supplementary information provides detailed information about the nonmajor governmental funds.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The statement of activities and net assets reports information that 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; culture and recreation; community and economic development; general government; debt service; and capital projects. Property tax; state and federal grants; and charges for service finance most of these activities.
- Business-type activities include the waterworks, the sanitary sewer system and various other funds. 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 service. 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 the (a) General Fund; (b) the Special Revenue Funds such as Road Use Tax, Employee Benefits, Expendable Trust, Local Option Sales Tax, T.I.F. #1, T.I.F. #2, T.I.F. Debt Reserve, CIDC Revolving Loan and State Grants; (c) the Debt Service Fund and the Capital Projects Funds such as Capital Improvement Sinking, Street, Curb and Gutter Projects and Airport Project. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provided. 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.

Governmental funds are further broken down into the following functional areas:

Public Safety - This category includes police operations, fire protection, civil service, emergency management and animal control services.

Public Works - This category includes roads, bridges, sidewalks, parking lots, equipment replacement, street lighting, traffic safety, street cleaning, airport operations, garbage, trees and snow removal.

Health and Social Services - This category includes the City's contribution to Helping Services for Northeast Iowa and Northeast Iowa Community Action Organization.

Culture and Recreation - This category includes library services, parks, recreation, the fitness center and the Cresco Theatre.

Community and Economic Development - This category includes community betterment, trees forever, economic development, housing, T.I.F., planning and zoning.

General Government - This category includes mayor/administrator, city clerk/treasurer, office assistant, city council, elections, legal services, operation of city hall and insurance.

Debt Service - This category includes general obligation bond debt and T.I.F. debt.

Capital Projects - This category includes the capital improvement fund which is used for sewer, water and storm sewer extensions and repairs within the City, airport projects along with street curb and gutter projects.

Governmental program revenue comes from property tax; utility replacement tax; T.I.F. revenue; local option tax; cigarette and liquor licenses; permit fees; interest on deposits; rent of land; buildings; hangars and tower; federal, state and local grants and reimbursements; charges for services; special assessments; and miscellaneous items which include contributions; deposits; fuel tax refund; sales of merchandise; concessions; fines and penalties; a portion of the cable franchise fees; internal service charges; reimbursements; principal on revolving loans; sales tax; and transfers from one fund to another.

2. Proprietary funds account for the City's enterprise funds. Enterprise funds are used to report business-type activities. The City maintains eight enterprise funds to provide separate information for water and sewer. These are all self-sufficient funds. They include all debt service and capital projects associated with these funds. These funds are: Municipal Sanitary Sewer Utility Revenue, Municipal Sanitary Sewer Utility Operation and Maintenance, Municipal Sanitary Sewer Utility Replacement, Municipal Sanitary Sewer Utility Revenue Bond and Interest Sinking, Municipal Sanitary Sewer Utility Revenue Debt Service Reserve, Yard Waste and Recycling and Water Meter Deposits.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

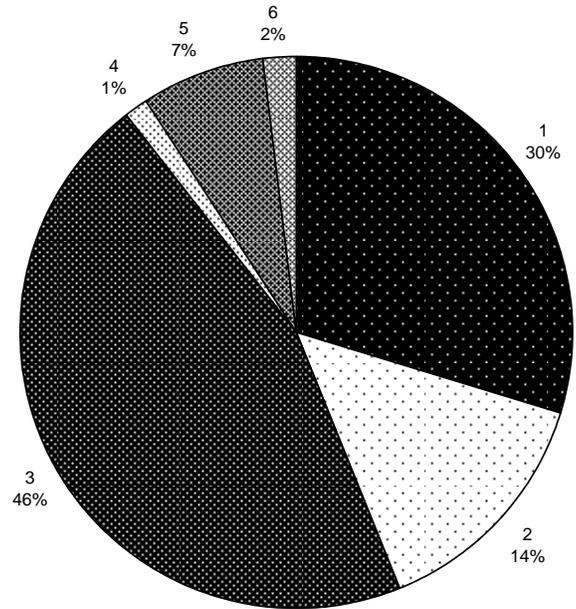
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$2,183,718 a year ago to \$2,431,178. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year Ended June 30, 2004
Receipts and Transfers	
Program Receipts	
Charges for service	\$ 993,182
Operating grants, contributions and restricted interest	480,216
General Receipts	
Property tax	1,524,671
Other city tax	40,755
Local option sales tax	244,657
Unrestricted interest on investments	23,716
Other general receipts	17,943
Transfers, net	<u>25,248</u>
Total Receipts and Transfers	<u>3,350,388</u>
Disbursements	
Public safety	547,742
Public works	874,340
Health and social services	2,952
Culture and recreation	759,001
Community and economic development	55,638
General government	213,015
Debt service	442,901
Capital projects	<u>207,339</u>
Total Disbursements	<u>3,102,928</u>
Increase in Cash Basis Net Assets	247,460
Cash basis net assets - beginning of year	<u>2,183,718</u>
Cash Basis Net Assets - End of Year	<u>\$ 2,431,178</u>

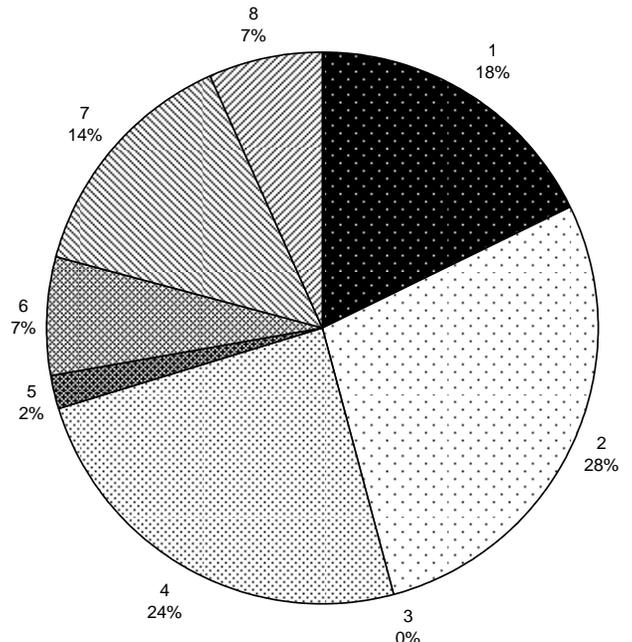
Receipts 2004

1. Charges for service	\$ 993,182
2. Operating grants	480,216
3. Property tax	1,524,671
4. Other city tax	40,755
5. Local option sales tax	244,657
6. Other	<u>66,907</u>
 Total	 <u>\$ 3,350,388</u>



Disbursements 2004

1. Public safety	\$ 547,742
2. Public works	874,340
3. Social services	2,952
4. Culture and recreation	759,001
5. Economic development	55,638
6. Government	213,015
7. Debt	442,901
8. Capital projects	<u>207,339</u>
 Total	 <u>\$ 3,102,928</u>



The City's total receipts for governmental activities increased by 2.4%, or \$77,353. The significant increase was due to additional collections of T.I.F. monies, local option sales tax and special assessments. The City did not increase property tax rates for the fiscal year 2004.

The total cost of all programs and services decreased by approximately \$118,000, or 3.7%. The majority of this decrease was in the community and economic development function area, due to the City not awarding as many grants and loans during the current year as compared to the previous year.

Changes in Cash Basis Net Assets of Business-Type Activities

**Year Ended
June 30, 2004**

Receipts	
Program Receipts	
Charges for Service	
Water	\$ 305,943
Sewer revenue	564,483
Other proprietary	42,591
General Receipts	
Loan payments	12,619
Unrestricted interest on investments	17,864
Other general receipts	<u>1,301</u>
Total Receipts	<u>944,801</u>
 Disbursements and Transfers	
Water	285,777
Sewer operation and maintenance	374,716
Sewer replacement	88,227
Other proprietary	74,976
Transfers, net	<u>25,248</u>
Total Disbursements and Transfers	<u>848,944</u>
 Increase in Cash Basis Net Assets	 95,857
 Cash basis net assets - beginning of year	 <u>1,351,672</u>
 Cash Basis Net Assets - End of Year	 <u>\$ 1,447,529</u>

Total business-type activities receipts for the fiscal year were \$944,801 compared to \$933,406 last year. The slight increase was primarily in collections of charges for service and miscellaneous receipts. The cash balance increased by approximately \$96,000, or 7.1%, over the prior year. Total disbursements and transfers for the fiscal year increased by 3.8% to a total of \$848,944.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City of Cresco's governmental funds reported a combined fund balance of \$2,431,178, an increase of more than \$247,000 above last year's total of \$2,183,718.

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 \$68,908 from the prior year to \$738,187. This increase was largely due to the City's receipt of approximately \$38,000 of additional tax monies from the allocation of T.I.F. collections.

The General Fund receives revenue from property tax, utility tax replacement, licenses and permits, interest on certificates of deposit, tower rents, garbage pickup, motor fuel tax reimbursement from the State, Howard County library contributions, donations, theatre rentals, Champlin Hall rentals, airport hangar and property rentals, parking fines, recreation and fitness fees, rent for the use of the fire station, miscellaneous sales and services.

The General Fund expends monies for the police; fire; library; park; fitness center; theatre; garbage; tree replacement; attorney and legal expenses; airport; elections; auditor fee; upkeep of city hall; property insurance; worker compensation insurance; tort liability insurance; animal control; one-half of the expenses of the law center; and council, zoning board, mayor, clerk and office wages.

The Road Use Tax Fund cash balance increased by \$15,656 to \$535,930 during the fiscal year. This increase is due to the use of monies from the Local Option Sales Tax Fund in 2004 for chip and seal expenses. The City intends to use this balance to help purchase capital equipment when needed.

The Employee Benefits Fund cash balance increased \$42,636 to \$204,653 during the fiscal year. This year the City received \$346,877 in property taxes with additional revenue coming from interest on a certificate of deposit and utility tax replacement. Total revenue was \$362,960. This fund pays FICA, Medicare, IPERS, unemployment claims, health and life insurance for employees, except those employees paid from the water and sewer utilities. The mild winter helped to keep overtime hours down and expenses rose a modest \$7,479, which contributed to the increased cash balance.

The Expendable Trust Fund is used to account for monies and properties received and held by the City in a trustee capacity. At the end of the fiscal year, the cash balance was \$370,047, an increase of \$108,814 from the previous year. The increase was the result of a \$66,770 public safety federal grant, approximately \$20,000 in rehabilitation home mortgage paybacks and receipt of donations for various cultural and recreational programs the City provides to the citizens.

The Debt Service Fund cash balance increased \$15,381 to \$73,374 during the fiscal year. This increase was due to a transfer from the Local Option Sales Tax Fund to help pay bond principal and interest payments.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The Water Utility Fund cash balance increased by \$32,663 to \$614,466, due to an increase in the sale of water and decrease in expenditures.

The Municipal Sanitary Sewer Utility Revenue Fund cash balance increased by \$43,835 to \$169,964, due to the increased water usage and decrease in expenditures.

The Municipal Sanitary Sewer Utility Operation and Maintenance Fund cash balance decreased \$5,804 to \$64,706, due primarily to normal increases in operation and maintenance expenses of the sewer plant and system.

The Municipal Sanitary Sewer Utility Replacement Fund cash balance decreased \$22,236 to \$362,916, due primarily to normal utility replacement expenses.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The first amendment was approved on November 17, 2003 and the second amendment was approved on March 1, 2004. Both amendments resulted in increases in receipts and expenses for grants, T.I.F. loans, projects not completed in the last fiscal year, equipment purchases, a sewer study and transfers.

DEBT ADMINISTRATION

At June 30, 2004, the City had \$1,623,000 in general obligation debt, \$539,000 in revenue bonds and \$160,727 in other indebtedness.

Outstanding Debt at Year End

General obligation notes	\$ 1,163,000
General obligation bonds	460,000
Revenue bonds	539,000
Rural community loan	34,526
Interfund loan	<u>126,201</u>
Totals	<u>\$ 2,322,727</u>

The City continues to carry a general obligation bond rating of A3. 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 general obligation debt of \$1,623,000 is significantly below its constitutional debt limit of \$4,097,911. There were no new bonds issued during the year.

The City has two T.I.F. areas: the industrial T.I.F. and the business T.I.F. The debt in the industrial area has been paid off and a portion of the tax monies were returned to all of the governmental entities entitled to them. The business T.I.F. has three loans at the present time. There are agreements with each business that was granted a loan. This agreement states that a specific amount of taxes be paid in order to pay off these loans.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Cresco's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees that will be charged for various City activities. One of those factors is the recent legislative changes that have negatively impacted the City's budget. The state consolidated payment was eliminated completely last year. Bank franchise fees were also eliminated the beginning of this fiscal year. Utility tax replacement revenue was impacted by a state settlement with Alliant Energy which will reduce revenue. In addition to these legislative changes, property tax credit reimbursements and machinery equipment reimbursements continue to be funded at less than 100%.

Improvements to the sewer system are needed. The plant is in need of updating and many sewer mains need to be repaired or replaced. The City is in the process of applying for a grant to help with this process.

FINANCIAL CONTACT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Sharon Smutzler, City Clerk, at 227 North Elm Street, Cresco, Iowa.

Basic Financial Statements

Statement of Activities and Net Assets - Cash Basis

Year Ended June 30, 2004

Functions/Programs	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			Component Unit	
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business- Type Activities		Total
Governmental Activities								
Public safety	\$ 547,742	\$ 23,267	\$ 85,841	\$ —	\$ (438,634)	\$ —	\$ (438,634)	\$ —
Public works	874,340	450,416	325,238	—	(98,686)	—	(98,686)	—
Health and social services	2,952	—	—	—	(2,952)	—	(2,952)	—
Culture and recreation	759,001	385,435	43,594	—	(329,972)	—	(329,972)	—
Community and economic development	55,638	19,712	25,543	—	(10,383)	—	(10,383)	—
General government	213,015	57,511	—	—	(155,504)	—	(155,504)	—
Debt service	442,901	—	—	—	(442,901)	—	(442,901)	—
Capital projects	207,339	56,841	—	—	(150,498)	—	(150,498)	—
Total Governmental Activities	3,102,928	993,182	480,216	—	(1,629,530)	—	(1,629,530)	—
Business-Type Activities								
Water	285,777	305,943	—	—	—	20,166	20,166	—
Sewer revenue	—	564,483	—	—	—	564,483	564,483	—
Sewer operation and maintenance	374,716	—	—	—	—	(374,716)	(374,716)	—
Sewer replacement	88,227	—	—	—	—	(88,227)	(88,227)	—
Other proprietary	74,976	42,591	—	—	—	(32,385)	(32,385)	—
Total Business-Type Activities	823,696	913,017	—	—	—	89,321	89,321	—
Total	\$ 3,926,624	\$ 1,906,199	\$ 480,216	\$ —	(1,629,530)	89,321	(1,540,209)	—
Component Unit								
Cresco Public Library Foundation	\$ 14,150		\$ 3,836					(10,314)
General Receipts								
Property Tax Levied for								
General purposes					691,047	—	691,047	—
Tax increment financing					214,898	—	214,898	—
Debt service					271,848	—	271,848	—
Employee benefits					346,878	—	346,878	—
Other City tax					40,755	—	40,755	—
Local option sales tax					244,657	—	244,657	—
Loan payments					—	12,619	12,619	—
Unrestricted interest on investments					23,716	17,864	41,580	—
Miscellaneous					17,943	1,301	19,244	3,510
Transfers					25,248	(25,248)	—	—
Total General Receipts and Transfers					1,876,990	6,536	1,883,526	3,510
Change in Cash Basis Net Assets					247,460	95,857	343,317	(6,804)
Cash Basis Net Assets - Beginning of Year					2,183,718	1,351,672	3,535,390	186,749
Cash Basis Net Assets - End of Year					\$ 2,431,178	\$ 1,447,529	\$ 3,878,707	\$ 179,945
Cash Basis Net Assets								
Restricted								
Streets					\$ 535,930	\$ —	\$ 535,930	\$ —
Urban renewal purposes					277,782	—	277,782	—
Debt service					73,374	126,012	199,386	—
Capital projects					90,781	—	90,781	—
Other purposes					715,124	—	715,124	—
Unrestricted					738,187	1,321,517	2,059,704	179,945
Total Cash Basis Net Assets					\$ 2,431,178	\$ 1,447,529	\$ 3,878,707	\$ 179,945

See accompanying notes to the financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Governmental Funds - All Fund Types

Year Ended June 30, 2004

	Special Revenue				Debt Service	Other Nonmajor Governmental Funds	Total
	General	Road Use Tax	Employee Benefits	Expendable Trust			
Receipts							
Property tax	\$ 691,047	\$ —	\$ 346,877	\$ —	\$ 271,848	\$ —	\$ 1,309,772
T.I.F. collections	—	—	—	—	—	214,898	214,898
Other city tax	22,519	—	9,853	—	8,384	236,593	277,349
Licenses and permits	13,927	—	—	—	—	—	13,927
Use of money and property	42,768	—	1,316	5,521	1,215	7,391	58,211
Intergovernmental	60,984	325,238	—	67,729	—	12,247	466,198
Charges for service	792,393	—	—	—	—	21,916	814,309
Special assessments	—	—	—	—	—	34,925	34,925
Miscellaneous	55,502	—	4,914	52,407	—	22,728	135,551
Total Receipts	1,679,140	325,238	362,960	125,657	281,447	550,698	3,325,140
Disbursements							
Operating							
Public safety	423,276	—	111,801	6,252	—	6,413	547,742
Public works	440,636	309,582	72,875	—	—	51,247	874,340
Health and social services	2,952	—	—	—	—	—	2,952
Culture and recreation	584,821	—	111,864	26,420	—	35,896	759,001
Community and economic development	—	—	—	225	—	55,413	55,638
General government	175,777	—	23,784	625	—	12,829	213,015
Debt service	—	—	—	—	289,725	153,176	442,901
Capital projects	—	—	—	—	—	207,339	207,339
Total Disbursements	1,627,462	309,582	320,324	33,522	289,725	522,313	3,102,928
Receipts Over (Under) Disbursements							
	51,678	15,656	42,636	92,135	(8,278)	28,385	222,212
Other Financing Sources (Uses)							
Operating transfers in	21,505	—	—	24,275	23,659	118,395	187,834
Operating transfers out	(4,275)	—	—	(7,596)	—	(150,715)	(162,586)
Total Other Financing Sources (Uses)	17,230	—	—	16,679	23,659	(32,320)	25,248
Increase (Decrease) in Cash Balances							
	68,908	15,656	42,636	108,814	15,381	(3,935)	247,460
Cash Balances -							
Beginning of Year	669,279	520,274	162,017	261,233	57,993	512,922	2,183,718
Cash Balances - End of Year							
	\$ 738,187	\$ 535,930	\$ 204,653	\$ 370,047	\$ 73,374	\$ 508,987	\$ 2,431,178
Cash Basis Fund Balances							
Reserved							
Debt service	\$ —	\$ —	\$ —	\$ —	\$ 73,374	\$ —	\$ 73,374
Unreserved							
General fund	738,187	—	—	—	—	—	738,187
Special revenue fund	—	535,930	204,653	370,047	—	418,206	1,528,836
Capital projects fund	—	—	—	—	—	90,781	90,781
Total Cash Basis Fund Balances	\$ 738,187	\$ 535,930	\$ 204,653	\$ 370,047	\$ 73,374	\$ 508,987	\$ 2,431,178

See accompanying notes to the financial statements.

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

Year Ended June 30, 2004

	Water Utility	Municipal Sanitary Sewer Utility Revenue	Municipal Sanitary Sewer Operation and Main- tenance	Municipal Sanitary Sewer Utility Replace- ment	Other Nonmajor Proprietary Funds	Total
Receipts						
Use of money and property ...	\$ 9,829	\$ 493	\$ 297	\$ 4,690	\$ 2,556	\$ 17,865
Charges for service	289,345	551,399	—	—	31,611	872,355
Miscellaneous.....	<u>16,598</u>	<u>13,083</u>	<u>—</u>	<u>1,301</u>	<u>10,980</u>	<u>41,962</u>
Total Operating Receipts	<u>315,772</u>	<u>564,975</u>	<u>297</u>	<u>5,991</u>	<u>45,147</u>	<u>932,182</u>
Operating Disbursements						
Business-type activities	<u>285,777</u>	<u>—</u>	<u>374,716</u>	<u>88,227</u>	<u>29,616</u>	<u>778,336</u>
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements.....						
	29,995	564,975	(374,419)	(82,236)	15,531	153,846
Nonoperating Disbursements						
Debt service.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>45,360</u>	<u>45,360</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements.....						
	<u>29,995</u>	<u>564,975</u>	<u>(374,419)</u>	<u>(82,236)</u>	<u>(29,829)</u>	<u>108,486</u>
Other Financing Sources (Uses)						
Loan payment.....	12,619	—	—	—	—	12,619
Operating transfers in.....	—	—	368,615	60,000	80,000	508,615
Operating transfers out.....	<u>(9,951)</u>	<u>(521,140)</u>	<u>—</u>	<u>—</u>	<u>(2,772)</u>	<u>(533,863)</u>
Total Other Financing Sources (Uses).....	<u>2,668</u>	<u>(521,140)</u>	<u>368,615</u>	<u>60,000</u>	<u>77,228</u>	<u>(12,629)</u>
Increase (Decrease) in Cash Balances						
	32,663	43,835	(5,804)	(22,236)	47,399	95,857
Cash Balances - Beginning of Year						
	<u>581,803</u>	<u>126,129</u>	<u>70,510</u>	<u>385,152</u>	<u>188,078</u>	<u>1,351,672</u>
Cash Balances - End of Year	<u>\$ 614,466</u>	<u>\$ 169,964</u>	<u>\$ 64,706</u>	<u>\$ 362,916</u>	<u>\$ 235,477</u>	<u>\$ 1,447,529</u>
Cash Basis Fund Balances						
Reserved	\$ —	\$ —	\$ —	\$ —	\$ 126,012	\$ 126,012
Unreserved.....	<u>614,466</u>	<u>169,964</u>	<u>64,706</u>	<u>362,916</u>	<u>109,465</u>	<u>1,321,517</u>
Total Cash Basis Fund Balances.....	<u>\$ 614,466</u>	<u>\$ 169,964</u>	<u>\$ 64,706</u>	<u>\$ 362,916</u>	<u>\$ 235,477</u>	<u>\$ 1,447,529</u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The City of Cresco, Iowa, is a political subdivision of the State of Iowa located in Howard County. It was first incorporated in 1866 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 nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

Reporting Entity

For financial reporting purposes, the City of Cresco 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 of Cresco (the primary government) and its discretely presented component unit, the Cresco Public Library Foundation (Foundation). The Foundation does not issue separately audited financial statements.

Discrete Component Unit

The Cresco Public Library Foundation (an Iowa nonprofit corporation) is a component unit that is legally separate from the City. The Foundation is governed by a Board of Trustees, which is the same Board as the Library Board. Economic resources received by the Foundation are used for the direct benefit of the Cresco Public Library and, therefore, the City's constituents.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods and 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 following boards and commissions: Cresco Industrial Development Corporation, Airport Commission and Zoning Board.

Basis of Presentation

Government-Wide Financial Statements

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 revenue, 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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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 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 other 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 that are not paid from other funds.

Special Revenue

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

The *Employee Benefit Fund* is used to account for employee payroll taxes and health and life insurance expense.

The *Expendable Trust Funds* are used to account for monies and properties received and held by the City in a trustee capacity.

The City reports the following major proprietary funds:

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

The *Municipal Sanitary Sewer Utility Revenue Fund* accounts for the receipts from the operation of the City's waste water treatment and sanitary sewer system.

The *Municipal Sanitary Sewer Utility Operation and Maintenance Fund* accounts for the operation and maintenance expense of the City's waste water treatment and sanitary sewer system.

The *Municipal Sanitary Sewer Utility Replacement Fund* accounts for the resources received to replace the City's waste water treatment and sanitary sewer system.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Basis of Accounting

The City of Cresco 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 fund types in accordance with accounting principles generally accepted in the United States of America.

Proprietary funds distinguish operating receipts and disbursements from nonoperating 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 nonoperating receipts and disbursements.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the community and economic development function prior to the March 1, 2004 amendment.

(2) Deposits and Investments

The City's deposits at June 30, 2004 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.

City investments are categorized to give an indication of the level of risk assumed by the City at year end. The City had no investments at June 30, 2004.

Component Unit

The Cresco Public Library Foundation investments at June 30, 2004 are shown below.

Certificates of deposit.....	\$ 121,567
Checking/savings	<u>58,378</u>
	<u>\$ 179,945</u>

Notes to the Financial Statements

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes and revenue notes are as follows.

Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Sewer Revenue Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 65,000	\$ 20,941	\$ 264,000	\$ 63,909	\$ 22,000	\$ 23,177
2006	125,000	17,203	165,000	48,215	23,000	22,231
2007	100,000	11,261	170,000	42,423	24,000	21,242
2008	55,000	6,410	95,000	29,357	25,000	20,210
2009	55,000	4,404	101,000	24,190	26,000	19,135
2010-14	60,000	2,340	256,000	49,127	149,000	77,787
2015-19	—	—	77,000	17,759	184,000	42,871
2020-22	—	—	35,000	2,279	86,000	5,590
	<u>\$ 460,000</u>	<u>\$ 62,559</u>	<u>\$ 1,163,000</u>	<u>\$ 277,259</u>	<u>\$ 539,000</u>	<u>\$ 232,243</u>

Year Ending June 30,	Interfund Loans		Rural Community Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ — *	\$ — *	\$ 11,170	\$ 1,138	\$ 362,170	\$ 109,165
2006	—	—	11,505	806	324,505	88,455
2007	—	—	11,851	464	305,851	75,390
2008	—	—	—	—	175,000	55,977
2009	—	—	—	—	182,000	47,729
2010-14	—	—	—	—	465,000	129,254
2015-19	—	—	—	—	261,000	60,630
2020-24	—	—	—	—	121,000	7,869
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 34,526</u>	<u>\$ 2,408</u>	<u>\$ 2,196,526</u>	<u>\$ 574,469</u>

*Repayment terms are contingent upon future T.I.F. tax collections.

The resolution providing for the issuance of sewer revenue notes includes the following provisions:

1. The bonds are to be redeemed from future earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the fund.
2. Sufficient cash transfers shall be made to the municipal sanitary sewer utility revenue bond and interest sinking account for the purpose of making the bond principal and interest payments when due.
3. Additional cash transfers shall be made to the municipal sanitary sewer utility revenue debt service reserve account until a specific minimum balance has been reached to provide a reserve to meet future bond principal and interest payments.

The City was in compliance with these provisions at June 30, 2004.

Notes to the Financial Statements

(3) Bonds and Notes Payable

Rural Community Loan

The City received a Rural Community loan, requiring annual payments of \$12,306, including interest at 3%, through August 31, 2007. During the year ended June 30, 2004, \$10,845 of principal and \$1,461 of interest was paid. The unpaid balance of the loan at June 30, 2004 was \$34,526.

Interfund Loan

The City approved on December 2, 2002, an interfund loan in the amount of \$145,000 from the Water Utility Fund to the T.I.F. #2 fund at a 3.34% annual interest rate. Payments will be made from annual T.I.F. taxes collected from two development projects. During the year ended June 30, 2004, \$12,619 of principal and \$4,457 of interest was paid. The unpaid balance of the loan at June 30, 2004 was \$126,201.

(4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.7% of their annual salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.9%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$66,934, \$64,924 and \$65,960, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused compensatory time off, vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. Compensatory time off and vacation benefits are payable in full when used or upon termination, retirement or death. Sick leave hours are payable in full when used, while the amount payable upon retirement or death is 20% of accumulated hours at the current hourly rate.

Notes to the Financial Statements

(5) Compensated Absences

These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate maximum liability for earned compensatory time off, vacation and sick leave payments (including related fringe benefits) payable to employees at June 30, 2004, primarily relating to the General Fund Type was as follows:

Type of Benefit	Amount 6-30-04
Compensatory time off	\$ 34,521
Vacation.....	96,660
Sick leave (100%).....	470,760
Total	<u>\$ 601,941</u>

This liability has been computed based on rates of pay as of June 30, 2004.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer To	Transfer From	Amount
General	Capital Projects	
	Capital Improvement Sinking	\$ 257
	Proprietary	
	Water Utility	6,951
	Municipal Sanitary Sewer Utility	9,525
	Revenue	
	Yard Waste	772
	Special Revenue	
	Local Option Sales Tax	4,000
		<u>21,505</u>
Special Revenue	Special Revenue	
T.I.F. #1	T.I.F. Debt Reserve	<u>70,799</u>
Special Revenue	General	4,275
Expendable Trusts	Special Revenue	
	Local Option Sales Tax	10,000
	Capital Projects	
	Capital Improvement Sinking	2,000
	Proprietary	
	Water Utility	3,000
	Municipal Sanitary Sewer Utility	
	Revenue	3,000
	Yard Waste	2,000
		<u>24,275</u>

Notes to the Financial Statements

(6) Interfund Transfers

Transfer To	Transfer From	Amount
Debt Service	Special Revenue Local Option Sales Tax	<u>\$ 23,659</u>
Capital Projects Airport	Special Revenue Expendable Trusts	<u>7,596</u>
Capital Projects Street, Curb and Gutter	Special Revenue Local Option Sales Tax	<u>40,000</u>
Proprietary Municipal Sanitary Sewer Utility Operation and Maintenance	Proprietary Municipal Sanitary Sewer Utility Revenue	<u>368,615</u>
Proprietary Municipal Sanitary Sewer Utility Revenue Bond and Interest Sinking	Proprietary Municipal Sanitary Sewer Utility Revenue	<u>60,000</u>
Proprietary Municipal Sanitary Sewer Utility Replacement	Proprietary Municipal Sanitary Sewer Utility Revenue	<u>60,000</u>
Proprietary Municipal Sanitary Sewer Utility Revenue Debt Service	Proprietary Municipal Sanitary Sewer Utility Revenue	<u>20,000</u>
Total		<u>\$ 696,449</u>

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$3,775 during the year ended June 30, 2004.

(8) Risk Management

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

(9) Accounting Change

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement Number 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Omnibus*; Statement Number 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences*; were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Required Supplementary Information

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

Year Ended June 30, 2004

	Governmental Funds - Actual	Proprietary Funds - Actual	Budgeted Amounts			Final Actual Over (Under) Budget
			Net	Original	Final	
Receipts						
Property tax.....	\$ 1,309,772	\$ —	\$ 1,309,772	\$ 1,252,612	\$ 1,346,508	\$ (36,736)
T.I.F. collections.....	214,898	—	214,898	160,000	166,000	48,898
Other city tax.....	277,349	—	277,349	260,769	278,554	(1,205)
Licenses and permits.....	13,927	—	13,927	6,565	6,660	7,267
Use of money and property...	58,211	13,408	71,619	94,707	90,798	(19,179)
Intergovernmental.....	466,198	—	466,198	444,210	451,689	14,509
Charges for service.....	814,309	872,355	1,686,664	1,611,755	1,675,753	10,911
Special assessments.....	34,925	—	34,925	1,500	4,000	30,925
Miscellaneous.....	135,551	41,962	177,513	146,739	165,173	12,340
Total Receipts.....	3,325,140	927,725	4,252,865	3,978,857	4,185,135	67,730
Disbursements						
Public safety.....	547,742	—	547,742	646,589	671,908	(124,166)
Public works.....	874,340	—	874,340	924,494	964,594	(90,254)
Health and social services....	2,952	—	2,952	3,000	3,000	(48)
Culture and recreation.....	759,001	—	759,001	754,065	780,190	(21,189)
Community and economic development.....	55,638	—	55,638	23,610	57,385	(1,747)
General government.....	213,015	—	213,015	207,937	219,937	(6,922)
Debt service.....	425,825	—	425,825	426,640	426,640	(815)
Capital projects.....	207,339	—	207,339	46,769	233,552	(26,213)
Business-type activities.....	—	823,696	823,696	748,942	887,942	(64,246)
Total Disbursements.....	3,085,852	823,696	3,909,548	3,782,046	4,245,148	(335,600)
Receipts Over (Under) Disbursements.....	239,288	104,029	343,317	196,811	(60,013)	(403,330)
Other Financing Sources, Net.....	8,172	(8,172)	—	—	—	—
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses.....						
Balances - Beginning of Year	2,183,718	1,351,672	3,535,390	3,534,939	3,534,939	(451)
Balances - End of Year.....	\$ 2,431,178	\$ 1,447,529	\$ 3,878,707	\$ 3,731,750	\$ 3,474,926	\$ (403,781)

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 ten major classes of disbursements known as functions, not by fund or fund type. 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 nonprogram. 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, two budget amendments increased budgeted disbursements by \$463,102. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the community and economic development function prior to the budget being amended.

Other Supplementary Information 

**Statement of Cash Receipts, Disbursements and Changes in Cash
Balances - Nonmajor Governmental Funds**

Year Ended June 30, 2004

	Special Revenue					Capital Projects			Total	
	Local Option Sales Tax	T.I.F. #1	T.I.F. #2	T.I.F. Debt Reserve	CIDC Revolving Loan	State Grants	Capital Improvement Sinking	Street, Curb and Gutter Projects		Airport Project
Receipts										
T.I.F. collections	\$ —	\$ —	\$ 214,898	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 214,898
Other city tax	236,593	—	—	—	—	—	—	—	—	236,593
Use of money and property	427	1,370	1,320	21	3,789	—	219	219	26	7,391
Intergovernmental.....	—	—	4,747	—	—	7,500	—	—	—	12,247
Charges for service	—	—	—	—	—	—	21,916	—	—	21,916
Special assessments.....	—	—	—	—	—	—	—	34,925	—	34,925
Miscellaneous.....	1,078	—	—	—	18,044	—	—	3,606	—	22,728
Total Receipts.....	238,098	1,370	220,965	21	21,833	7,500	22,135	38,750	26	550,698
Disbursements										
Operating										
Public safety.....	6,413	—	—	—	—	—	—	—	—	6,413
Public works.....	51,247	—	—	—	—	—	—	—	—	51,247
Culture and recreation.....	35,896	—	—	—	—	—	—	—	—	35,896
Community and economic development..	22,500	—	3,687	—	21,726	7,500	—	—	—	55,413
General government	12,829	—	—	—	—	—	—	—	—	12,829
Debt service.....	—	—	153,176	—	—	—	—	—	—	153,176
Capital projects.....	—	—	—	—	—	—	1,850	200,515	4,974	207,339
Total Disbursements.....	128,885	—	156,863	—	21,726	7,500	1,850	200,515	4,974	522,313
Receipts Over (Under) Disbursements.....	109,213	1,370	64,102	21	107	—	20,285	(161,765)	(4,948)	28,385
Other Financing Sources (Uses)										
Operating transfers in.....	—	70,799	—	—	—	—	—	40,000	7,596	118,395
Operating transfers out.....	(77,659)	—	—	(70,799)	—	—	(2,257)	—	—	(150,715)
Total Other Financing Sources (Uses)	(77,659)	70,799	—	(70,799)	—	—	(2,257)	40,000	7,596	(32,320)
Increase (Decrease) in Cash Balances.....	31,554	72,169	64,102	(70,778)	107	—	18,028	(121,765)	2,648	(3,935)
Cash Balances - Beginning of Year.....	91,957	56,694	84,817	70,778	16,806	—	16,707	170,230	4,933	512,922
Cash Balances - End of Year	\$ 123,511	\$ 128,863	\$ 148,919	\$ —	\$ 16,913	\$ —	\$ 34,735	\$ 48,465	\$ 7,581	\$ 508,987
Cash Basis Fund Balances										
Unreserved										
Special revenue funds.....	\$ 123,511	\$ 128,863	\$ 148,919	\$ —	\$ 16,913	\$ —	\$ —	\$ —	\$ —	\$ 418,206
Capital projects funds.....	—	—	—	—	—	—	34,735	48,465	7,581	90,781
Total Cash Basis Fund Balances	\$ 123,511	\$ 128,863	\$ 148,919	\$ —	\$ 16,913	\$ —	\$ 34,735	\$ 48,465	\$ 7,581	\$ 508,987

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

Year Ended June 30, 2004

	Municipal Sanitary Sewer Utility Revenue Bond and Interest Sinking	Municipal Sanitary Sewer Utility Revenue Debt Service Reserve	Yard Waste and Recycling T.I.F. #2	Water Meter Deposits	Total
Operating Receipts					
Use of money and property	\$ 679	\$ 737	\$ 574	\$ 566	\$ 2,556
Charges for service	—	—	31,611	—	31,611
Miscellaneous	—	—	—	10,980	10,980
Total Operating Receipts	<u>679</u>	<u>737</u>	<u>32,185</u>	<u>11,546</u>	<u>45,147</u>
Operating Disbursements					
Business-type activities	—	—	17,276	12,340	29,616
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements					
	679	737	14,909	(794)	15,531
Nonoperating Disbursements					
Debt service	45,360	—	—	—	45,360
Excess (Deficiency) of Receipts Over (Under) Disbursements					
	(44,681)	737	14,909	(794)	(29,829)
Other Financing Sources (Uses)					
Operating transfers in	60,000	20,000	—	—	80,000
Operating transfers out	—	—	(2,772)	—	(2,772)
Total Other Financing Sources (Uses)	<u>60,000</u>	<u>20,000</u>	<u>(2,772)</u>	<u>—</u>	<u>77,228</u>
Increase (Decrease) in Cash Balances					
	15,319	20,737	12,137	(794)	47,399
Cash Balance - Beginning of Year	41,222	48,734	50,653	47,469	188,078
Cash Balance - End of Year	<u>\$ 56,541</u>	<u>\$ 69,471</u>	<u>\$ 62,790</u>	<u>\$ 46,675</u>	<u>\$ 235,477</u>
Cash Basis Fund Balances					
Reserved	\$ 56,541	\$ 69,471	\$ —	\$ —	\$ 126,012
Unreserved	—	—	62,790	46,675	109,465
Total Cash Basis Fund Balances	<u>\$ 56,541</u>	<u>\$ 69,471</u>	<u>\$ 62,790</u>	<u>\$ 46,675</u>	<u>\$ 235,477</u>

Schedule of Indebtedness

Year Ended June 30, 2004

Obligation	Amount Originally Issued	Date of Issue	Interest Rates
General Obligation Bonds			
Corporate purpose.....	\$ 410,000	5-1-91	6.625%
Corporate purpose.....	220,000	10-1-93	4.50 - 4.80
Corporate purpose.....	290,000	12-1-01	2.65 - 3.90
Total General Obligation Bonds.....			
General Obligation Notes			
Corporate purpose.....	\$ 405,000	12-1-96	4.80 - 4.90%
Capital Loan Notes			
Series 1998B	235,000	5-1-98	4.40
Series 2000A	220,000	6-1-00	5.35
Series 2000B	230,000	6-1-00	7.60
Series 2001A	500,000	8-1-01	5.25 - 5.75
Series 2001B	253,000	8-1-01	4.30
Total General Obligation Notes			
Sewer Revenue Capital Loan Notes	\$ 600,000	8-1-01	4.30%
Other Indebtedness			
Rural Community Loan.....	\$ 145,712	1990-1991	3.00%
Interfund Loan			
T.I.F. #2	\$ 145,000	12-2-02	3.34%

See accompanying notes to the financial statements.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 170,000	\$ 40,000	\$ 130,000	\$ 11,263	\$ —
65,000	20,000	45,000	3,040	—
<u>290,000</u>	<u>5,000</u>	<u>285,000</u>	<u>10,320</u>	<u>—</u>
<u>\$ 525,000</u>	<u>\$ 65,000</u>	<u>\$ 460,000</u>	<u>\$ 24,623</u>	<u>\$ —</u>
\$ 245,000	\$ 115,000	\$ 130,000	\$ 11,892	\$ —
40,000	40,000	—	1,760	—
190,000	30,000	160,000	10,165	—
200,000	50,000	150,000	15,200	—
500,000	—	500,000	27,990	—
<u>232,000</u>	<u>9,000</u>	<u>223,000</u>	<u>9,976</u>	<u>—</u>
<u>\$ 1,407,000</u>	<u>\$ 244,000</u>	<u>\$ 1,163,000</u>	<u>\$ 76,983</u>	<u>\$ —</u>
<u>\$ 560,000</u>	<u>\$ 21,000</u>	<u>\$ 539,000</u>	<u>\$ 24,080</u>	<u>\$ —</u>
<u>\$ 45,371</u>	<u>\$ 10,845</u>	<u>\$ 34,526</u>	<u>\$ 1,461</u>	<u>\$ —</u>
<u>\$ 138,821</u>	<u>\$ 12,620</u>	<u>\$ 126,201</u>	<u>\$ 4,457</u>	<u>\$ —</u>

Schedule of Bond and Note Maturities

At June 30, 2004

General Obligation Bonds							
Year Ending June 30,	Corporate Purpose						Total
	Issued May 1, 1991		Issued October 1, 1993		Issued December 1, 2001		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2005	6.625%	\$ 40,000	4.70%	\$ 20,000	2.95%	\$ 5,000	\$ 65,000
2006	6.625	45,000	4.80	25,000	3.20	55,000	125,000
2007	6.625	45,000	—	—	3.40	55,000	100,000
2008	—	—	—	—	3.65	55,000	55,000
2009	—	—	—	—	3.75	55,000	55,000
2010	—	—	—	—	3.90	60,000	60,000
Total		\$ 130,000		\$ 45,000		\$ 285,000	\$ 460,000

General Obligation Notes											
Year Ending June 30,	Corporate Purpose		Series 2000A		Series 2000B		Series 2001A		Series 2001B		Total
	Issued December 1, 1996		Issued June 1, 2000		Issued June 1, 2000		Issued August 1, 2001		Issued August 1, 2001		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2005	4.90%	\$ 130,000	5.35%	\$ 25,000	7.60%	\$ 100,000	—	\$ —	4.30%	\$ 9,000	\$ 264,000
2006	—	—	5.35	50,000	7.60	50,000	5.25%	55,000	4.30	10,000	165,000
2007	—	—	5.35	85,000	—	—	5.45	75,000	4.30	10,000	170,000
2008	—	—	—	—	—	—	5.55	85,000	4.30	10,000	95,000
2009	—	—	—	—	—	—	5.65	90,000	4.30	11,000	101,000
2010	—	—	—	—	—	—	5.75	95,000	4.30	11,000	106,000
2011	—	—	—	—	—	—	5.75	100,000	4.30	12,000	112,000
2012	—	—	—	—	—	—	—	—	4.30	12,000	12,000
2013	—	—	—	—	—	—	—	—	4.30	13,000	13,000
2014	—	—	—	—	—	—	—	—	4.30	13,000	13,000
2015	—	—	—	—	—	—	—	—	4.30	14,000	14,000
2016	—	—	—	—	—	—	—	—	4.30	15,000	15,000
2017	—	—	—	—	—	—	—	—	4.30	15,000	15,000
2018	—	—	—	—	—	—	—	—	4.30	16,000	16,000
2019	—	—	—	—	—	—	—	—	4.30	17,000	17,000
2020	—	—	—	—	—	—	—	—	4.30	17,000	17,000
2021	—	—	—	—	—	—	—	—	4.30	18,000	18,000
Total		\$ 130,000		\$ 160,000		\$ 150,000		\$ 500,000		\$ 223,000	\$ 1,163,000

Schedule of Bond and Note Maturities

At June 30, 2004

Year Ending June 30,	<u>Sewer Revenue</u>		<u>Other Indebtedness</u>			
	<u>Capital Loan Notes</u>		<u>Interfund Loan</u>		<u>Rural Community Loan</u>	
	<u>Issued Aug. 1, 2001</u>		<u>Issued Dec. 2, 2002</u>		<u>Issued 1990-1991</u>	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2005	4.30%	\$ 22,000	3.34%	\$ — *	3.00%	\$ 11,170
2006	4.30	23,000		—	3.00	11,505
2007	4.30	24,000		—	3.00	11,851
2008	4.30	25,000		—		—
2009	4.30	26,000		—		—
2010	4.30	27,000		—		—
2011	4.30	29,000		—		—
2012	4.30	30,000		—		—
2013	4.30	31,000		—		—
2014	4.30	32,000		—		—
2015	4.30	34,000		—		—
2016	4.30	35,000		—		—
2017	4.30	37,000		—		—
2018	4.30	38,000		—		—
2019	4.30	40,000		—		—
2020	4.30	42,000		—		—
2021	4.30	<u>44,000</u>		<u>—</u>		<u>—</u>
Total		<u>\$ 539,000</u>		<u>\$ 126,201</u>		<u>\$ 34,526</u>

*Repayment terms are contingent upon future T.I.F. tax collections.

Schedule of Receipts by Source and Disbursements by Function All Governmental Funds

Years Ended June 30, 2001 Through 2004

	2004	2003	2002	2001
Receipts				
Property tax	\$ 1,309,772	\$ 1,294,007	\$ 1,131,266	\$ 1,037,660
T.I.F. collections	214,898	144,837	206,244	278,762
Other city tax	277,349	266,893	255,796	216,109
Licenses and permits.....	13,927	12,086	13,182	11,474
Use of money and property	58,211	56,024	63,750	106,921
Intergovernmental.....	466,198	539,194	745,605	621,245
Charges for service	814,309	812,344	771,242	754,396
Special assessments.....	34,925	4,563	4,780	9,525
Miscellaneous.....	<u>135,551</u>	<u>97,131</u>	<u>86,243</u>	<u>24,114</u>
Total Receipts	<u>\$ 3,325,140</u>	<u>\$ 3,227,079</u>	<u>\$ 3,278,108</u>	<u>\$ 3,060,206</u>
Disbursements				
Operating				
Public safety.....	\$ 547,742	\$ 536,615	\$ 920,078	\$ 451,849
Public works.....	874,340	826,386	800,133	756,051
Health and social services	2,952	2,835	3,335	2,835
Culture and recreation	759,001	803,698	685,898	717,763
Community and economic development.....	55,638	261,792	704,823	191,471
General government	213,015	186,036	172,209	183,279
Debt service.....	425,825	499,198	526,011	480,644
Capital projects.....	<u>207,339</u>	<u>49,353</u>	<u>912,206</u>	<u>455,780</u>
Total Disbursements	<u>\$ 3,085,852</u>	<u>\$ 3,165,913</u>	<u>\$ 4,724,693</u>	<u>\$ 3,239,672</u>

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

To the Honorable Mayor and
Members of the City Council
City of Cresco, Iowa

We have audited the financial statements of the City of Cresco, Iowa, for the year ended June 30, 2004, and have issued our report thereon dated November 30, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance 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 noncompliance that are required to be reported under *Government Auditing Standards*.

The following comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 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. Prior year statutory comments have all been resolved, except comment 04-C-5 which is repeated below.

04-C-1 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

04-C-2 Certified Budget - Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the community and economic development functions prior to the budget being amended on March 1, 2004. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

City's Response - The budget will be amended before it is exceeded in the future, if necessary.

Auditor's Conclusion - Response accepted.

04-C-3 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion.

04-C-4 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

04-C-5 Business Transactions - Business transactions between the City of Cresco and City officials which may appear to be conflicts of interest are as follows:

Name, Title and Business Connection	Transaction Description	Amount
John Loveless, Council Member, Part owner of Cresco Shopper	Advertising and supplies	\$ 2,277
James Daly, Council Member, Owner of Daly Plumbing & Heating	Supplies and repairs	1,491
Rhonda Hughes, Mayor Part owner of Haines Drug Store	Supplies	8

In accordance with Chapter 362.5 of the Code of Iowa, the transactions with Council Member Loveless may represent a conflict of interest since a competitive bidding process was not utilized and the total of the transactions was in excess of \$1,500.

Auditor's Recommendation - The City should use a competitive bidding process when practicable.

City's Response -The transactions were normal advertising and supply costs. A competitive bidding process is not always practical, however, we will endeavor to competitively bid the work when practicable in the future.

Auditor's Conclusion - Response accepted.

04-C-6 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

04-C-7 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

04-C-8 Deposits and Investments - We noted no instances of noncompliance with deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

04-C-9 Financial Condition - There were no funds that had a deficit balance at June 30, 2004.

04-C-10 Expendable Trust Fund Compliance - Expendable trust funds are established for specific programs or usage and should only be used for these purposes.

Auditor's Recommendation - Donations and expenses for a community Halloween party were processed through an expendable trust fund established for future building and equipment repairs and replacement.

City's Response - We will properly use expendable trust funds in the future.

Auditor's Conclusion - Response accepted.

04-C-11 Bylaws of Cresco Public Library Foundation - Bylaws require at least two meetings per year of the Foundation Board and a biennial independent audit by a registered certified public accountant.

Auditor's Recommendation - The Library Board and the Library Foundation Board have the same members. The Library Board minutes document their monthly meeting, but there are no minutes of meetings of the Library Foundation Board. The Library Foundation Board should document their meeting in minutes. Additionally, the bylaws require biennial audits which have not been performed.

City's Response - The Library Foundation plans to comply with bylaws as written or amend them as appropriate.

Auditor's Conclusion - Response accepted.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

The prior year reportable condition has not been resolved and is repeated below as item 04-IC-1.

04-IC-1 Segregation of Duties

Prior Year Finding and Recommendation - The City is not large enough to permit an adequate segregation of duties for an effective system of internal control. The concentration of closely related duties and responsibilities such as the handling of cash receipts and disbursements, recording of the cash transactions and preparing various reports by a small staff makes it impossible to establish an adequate system of automatic checks for good internal control. We realize the condition will be difficult to improve on. However, we do believe it is important that Council be aware this condition does exist and make changes when appropriate and cost effective.

Current Year Finding - We found that the same conditions existed.

Auditor's Recommendation - We reiterate our prior year recommendation.

City's Response - Council is aware of the condition.

Conclusion - Response accepted.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is a material weakness.

This report is intended for the information of the Mayor, City Council and management of the City of Cresco, Iowa, and other grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
November 30, 2004