

CITY OF CRESTON, IOWA

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
COMMENTS AND RECOMMENDATIONS

Year Ended June 30, 2004

CITY OF CRESTON, IOWA
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CITY OF CRESTON, IOWA
CITY OFFICIALS
June 30, 2004

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Before January 1, 2004		
Larry Wynn	Mayor	January 1, 2004
Warren Woods	Council Member	January 1, 2004
Melvin Scadden	Council Member	January 1, 2006
Charlie Lang	Council Member	January 1, 2006
Mike Tamerius	Council Member	January 1, 2006
Richard Madison	Council Member	January 1, 2004
Betty Shelton	Council Member	January 1, 2006
Marsha Wilson	Council Member	January 1, 2004
After January 1, 2004		
Mike Tamerius	Mayor	January 1, 2008
Lois Monday	Council Member	January 1, 2008
Melvin Scadden	Council Member	January 1, 2006
Steve Johnston	Council Member	January 1, 2006
Ken Hudson	Council Member	January 1, 2006
Richard Madison	Council Member	January 1, 2008
Betty Shelton	Council Member	January 1, 2006
Marsha Wilson	Council Member	January 1, 2008
Joseph G. Parker	City Administrator	---
Mary Moore	City Clerk	January 1, 2005
Arnold O. Kenyon, III	City Attorney	January 1, 2005

INDEPENDENT AUDITOR'S REPORT

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

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 Creston, 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 City of Creston, Iowa's officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, 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 U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Creston, Iowa, as of June 30, 2004, 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.

To the Honorable Mayor and
Members of the City Council
City of Creston

As described in Note 13, 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 report dated August 4, 2004, on our consideration of City of Creston's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is 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 29 through 30 are not required parts of the basis financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Creston, Iowa’s basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

Drapen, Smidgrass, Mitchell + Co., P.C.

August 4, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Creston 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 ending 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.

Financial Highlights

Government Activities total revenues decreased by \$819,305 from the previous fiscal year. The primary cause of this is the City did borrow during the previous fiscal year in order to refinance five bond issues. The total savings to the City, for taking this step, is approximately \$47,000 over the next five years. Intergovernmental revenues, property taxes, tax incremental financing taxes, hotel and motel taxes and licenses and permits all increased.

Government Activities total expenditures decreased by \$1,234,241. The primary reason is again related to less debt service activities. The City retired five bond issues and reissued debt at a lower interest rate during the previous fiscal year. The areas of Public Safety, Public Works and Capital Projects increased, while all other program areas showed a decrease in expenditures. Public Safety increased by \$138,203, Public Works increased by \$87,282 and Capital Projects increased by \$1,304.

The City's total cash basis net assets increased by \$403,240, of this amount \$92,813 of the gain was due to Business Type Activities, the Sewer Fund, while the General Fund had a gain of \$164,190 and the Employee Benefits Fund showed an increase of \$37,766 due to less medical claims filed over the fiscal year than anticipated. The Employee Benefits Fund also expects reimbursements of about \$60,000 for third-party health insurance claims due back to the fund. The Debt Service Fund also realized a gain of \$87,565 due to past taxing practices to make up for deficits in the fund in previous fiscal years.

Using This Annual Report

The annual report consists of a series of financial statements as well as other requirements 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 Statements consists of a statement of activities and changes in cash balances. 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 statements by providing information about the most significant funds.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Supplemental Information provides detailed information about the annual budget, non-major governmental funds and debt obligations.

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 cash basis accounting.

Reporting the City as a Whole

The statement of activities and changes in cash balance presents information showing how the City's cash balances changed during the most recent fiscal year.

The City's governmental activities are displayed in the statements of activities and changes in cash balance. 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.

The business type activities of the City include the sanitary and storm sewer systems. These activities are financed primarily by user fees.

Fund Financial Statements

The fund financial statements begin on page 14 and provide detailed information about individual significant funds; not the City as a whole. Some funds are established by State law and by bond covenants. The City can establish other funds to help it control and manage money for particular purposes.

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Government funds include: 1) General Fund, 2) the Special Revenue Funds such as Road Use Tax, Employee Benefit and Retirement Funds and Tax Increment Funds, 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) The Permanent Fund. Governmental Funds are reported on the basis of cash receipts and disbursements. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Financial records and reports are prepared on the basis of when cash is received and disbursed. The government fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or few financial resources that can be spent in the near future to finance City programs.
2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report the same functions presented as business type activities in the government-wide statement of activities and changes in cash balance. The City maintains one Enterprise Fund to provide separate information for the sewer fund, considered to be a major fund of the City. The Sewer Fund is divided into several Sub-funds that include the Sewer Operating Fund, Sewer Debt Service Fund, Sewer Plant Replacement Fund, and the Sewer Stormwater Fund.

Government-Wide Financial Analysis

As noted earlier, the City reports the activities of the funds using the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP). The City does not report capital assets or depreciation on those assets as would be required by GAAP.

Government Activities

The City's cash balance for governmental activities grew from a year ago, increasing by \$310,427. The analysis below focuses on this change in cash balance and changes in receipts and disbursements from the prior year.

Change in Cash Balance of Governmental Activities

	<u>2004</u>	<u>2003</u>
Receipts and transfers:		
Program receipts:		
Charges for services and sales	\$ 529,473	\$ 473,254
Operating grants, contributions and restricted interest	1,402,099	1,272,239
General receipts		
Property tax	2,484,137	2,338,422
Tax incremental financing collections	164,306	149,708
Other city tax	80,447	13,285
Licenses and permits	46,038	30,384
Use of money and property	92,390	79,599
Bond and short term debt proceeds	50,000	1,280,850
Other general receipts	251,883	203,393
Transfers-in	<u>636,193</u>	<u>715,137</u>
Total receipts and transfers	<u>\$5,736,966</u>	<u>\$6,556,271</u>
Disbursements:		
Public safety	\$1,357,093	\$1,217,445
Public works	1,151,227	1,065,402
Health and social services		
Culture and recreation	364,896	422,770
Community and economic development	26,770	26,827
General government	1,058,487	1,105,507
Debt service	1,083,828	2,369,043
Capital projects	102,172	100,868
Transfers-out	<u>282,066</u>	<u>352,918</u>
Total disbursements and transfers	<u>\$5,426,539</u>	<u>\$6,660,780</u>
Increase (decrease) in cash balance	\$ 310,427	\$ (104,509)
Cash balance, beginning of fiscal year	<u>1,483,361</u>	<u>1,587,870</u>
Cash balance, end of fiscal year	<u>\$1,793,788</u>	<u>\$1,483,361</u>

The City's total receipts for governmental activities decreased by 12.50% or \$819,305. The total cost of all programs and services decreased by approximately 18.53% or \$1,234,241 with no new programs added this year. The decrease in receipts was due to the fact that the City had no significant amount of borrowing while overall revenues did increase. The decrease in expenditures was due to the City retiring five bond issues the previous fiscal year, which added to total expenditures. New bonds were issued at a lower rate.

The City increased the property tax rates in 2004 by an average of 3 percent to help offset increases in employee health insurance costs and to make up for the loss of debt service revenue from a commercial enterprise which declared bankruptcy. The tax increase raised the City's tax receipts by \$145,716 in 2004. Property tax receipts are expected to decrease in the next fiscal year due to a lower tax rate and the transfer of some personnel costs from the General Fund to the Sewer Operating Fund and Road Use Fund.

The cost of all governmental activities this year was \$5,426,539 compared to \$6,660,780 last year. However, as shown in the statement of activities and changes in cash balance on pages 13, the decrease in costs was due primarily because the City did not pay off large amounts of debt service and reissue bonds at a lower rate. The City Council did take steps to increase revenues and lower costs in the General Fund during the fiscal year, which is shown in an increase in the General Fund balance of \$806,791, a gain of \$164,190 over the previous fiscal year.

	Business Type Activities	
	<u>2004</u>	<u>2003</u>
Receipts		
Program receipts:		
Charges for services and sales	\$ 985,663	\$ 979,203
Uses of money and property	486	4,283
Transfers in	<u>8,000</u>	<u>---</u>
Total revenues	<u>\$ 994,149</u>	<u>\$ 983,486</u>
Disbursements and transfers:		
Personal services	\$ 286,312	\$ 332,318
Services and commodities	228,203	181,089
Capital outlay	24,693	61,327
Transfers out	<u>362,128</u>	<u>362,219</u>
Total disbursements and transfers	<u>\$ 901,336</u>	<u>\$ 936,953</u>
Increase (decrease) in cash balance	\$ 92,813	\$ 46,533
Cash balance, beginning of fiscal year	<u>438,616</u>	<u>392,083</u>
Cash balance, end of fiscal year	<u>\$ 531,429</u>	<u>\$ 438,616</u>

Total business type activity receipts for the fiscal year were \$994,149 compared to \$983,486 last fiscal year. The revenue increase was due to a rate increase authorized by City Council to offset the transfer of some personnel costs to the Sewer Department from other Departments. The revenue increase was offset by an industrial customer that had declared bankruptcy and shut down a food processing enterprise. The food processing operation is expected to begin operations in the fall of 2004 and sewer revenues should recover some of the revenues.

The cash balance increased by \$92,813 due in part that a portion of the sewer replacement activities scheduled for the inflow and infiltration work was not completed. This work will be completed during fiscal year 2005 and will cost approximately \$35,000 and is included in the fiscal year 2005 budget.

The City's Individual Major Funds

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's funds is to provide information on near-term inflows, outflows, and cash balances of spendable resources. The following are the major reasons for changes in cash balances from the prior year for the City's major funds.

Governmental Funds

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the cash balance in the General Fund was \$806,791, an increase of \$164,190. The increase was caused by a substantial increase in revenue sources, such as residential solid waste collection fees, police fines, and building permits and related fees. City Departments also were advised to spend funds carefully and did so.

The Road Use Tax Fund cash balance decreased by \$20,182 to \$104,029, during the fiscal year. The decrease was attributable to a higher than anticipated usage of street repair materials due to a harsh winter and several large street projects at McKinley Park. In order to keep a future decrease in cash balances from recurring, the City had a staff reduction in the Street Department.

The Employee Benefits Fund is a Special Revenue Fund that accounts for revenues received and expenditures paid in support of employee benefits. The types of revenues received are property taxes assessed for the employer contributions for health insurance, FICA, IPERS, and unemployment benefits, in addition to any third party health insurance reimbursements received for major medical claims exceeding the stop loss level established with a third party administrator. Expenditures from the fund include premiums and medical claims paid on behalf of covered employees and the employer contributions for FICA, IPERS, and unemployment benefits. The fund showed a net gain of \$37,766 during the fiscal year due to less than anticipated amounts of medical claims paid.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation and long-term debt. The City received \$630,189 in property taxes and transferred \$557,204 from other funds to make payments for these obligations. The fund showed a gain of \$87,565 for the fiscal year just completed and the excess will be used in future years to lower the annual tax rate due for the payment of debt.

Proprietary Funds

The cash balance of the Sewer Fund increased by \$92,813 due primarily to an increase in fee rates and the City's inability to spend funds for inflow and infiltration projects until more exact problems are recognized. The City is under an administrative order from the Iowa Department of Natural Resources to address the issue of inflow and infiltration and has an ongoing program in place.

Budgetary Highlights

In accordance with the Code of Iowa, the City Council annually adopts a budget following the required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures, ie; a required public notice followed by a public hearing. Over the course of the year, the City amended its operating budget once. The amendment was approved on May 18, 2004 and resulted in an increase in operating disbursements related to a cost overrun of approximately \$500,000 on various departmental budgets due to equipment purchases, overtime wages, and a Street Construction project on North Cherry Street, previously approved by City Council but not budgeted in the current fiscal year.

Even with this amendment, the City exceeded the budget for the General Government function for the year ended June 30, 2004. This amendment made during the 2004 fiscal year should have no impact on the 2005 fiscal year budget.

Debt Administration

At year-end, the City had approximately \$6,526,617 in bonds and other long-term debt compared to \$6,976,765 last year as shown below.

Outstanding Debt at Year End

	<u>2004</u>	<u>2003</u>
General obligation bonds	\$2,120,000	\$2,285,000
Capital loan notes – refunding notes	945,000	1,295,000
Street extension loan	20,000	30,000
Equipment loan	121,207	243,765
State revolving fund wastewater bonds	2,956,000	3,123,000
Fire truck loan	50,000	---
Iowa Department of Transportation – no interest loan	<u>314,410</u>	<u>---</u>
Total	\$6,526,617	\$6,976,765

Debt decreased as a result of the refinancing of five bond issues, in the amount of \$1,295,000 in principal allowing for net present value savings of \$46,519 over a five year period. The City added additional debt in the form of a \$50,000 loan for a fire truck, to be repaid over a five year period, and a three year no interest loan from the Iowa Department of Transportation to finance the City portion of costs for a resurfacing and street widening project along Highway 25 and Highway 34. The City Debt Service Levy will decrease from a tax rate of \$3.98636 to \$3.37527 due to the lower interest rate of the refunded bonds, the use of other moneys transferred from the General Fund, and contributions made by the Municipal Utility for economic development uses.

The City's general obligation bond rating continues to be strong. The 1999 bond issue was rated AAA and a rating of A3 was given on both the 1986 and 1993 bond issues. The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation of \$2,120,000 is well below the City's \$11,488,597 legal debt limit.

More detailed information about the City's long-term liabilities is presented in Note 3 to the financial statements.

Economic Factors and Next Year's Budget and Rates

The City's elected and appointed officials and citizens considered many factors when setting the 2005 fiscal year budget, tax rates, and fees that will be charged for various City activities. One of these factors is the reduction in State funding of various programs such as the consolidated payments, bank franchise fees, and certain property tax exemptions paid to the County and passed onto the City. These reductions amounted to approximately \$163,000.

In addition, return on investments and the costs of employee benefits are primary concerns in setting a budget. A local company bankruptcy also leaves questions concerning the taxable valuation of certain soybean processing plants and equipment and may require a decrease in taxable valuation approximated at \$15 million, which has a big impact on the amount of debt service taxes collected by the City.

These factors all contributed when adopting the fiscal year 2005 budget. Amounts available for appropriations in the budget are \$12,341,522. This amount includes all Business Type Activities, including the Sewer and Water Department expenditures. Steps implemented by the City, while taking into account increased costs of employee benefits, low returns on investments, and the need to keep services at an acceptable level, allowed the City to lower its property tax rate by 44 cents per thousand dollars of taxable valuation. Increasing certain fees, transferring costs across funds, and reducing the costs of the delivery of services allowed the City to draw down fund balances minimally in the fiscal year 2004 budget.

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 information, contact Joseph G. Parker, Creston City Administrator, 116 West Adams Street, P.O. Box 449, Creston, Iowa 50801.

FINANCIAL STATEMENTS

CITY OF CRESTON, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the Year Ended June 30, 2004

Exhibit A

FUNCTIONS/PROGRAMS:	<u>Disbursements</u>	PROGRAM RECEIPTS		
		Charges For Services	Operating Grants Contributions, and Restricted Interest	Capital Grants Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 1,357,093	\$ 214,177	\$ 215,793	\$ -
Public works	1,151,227	458,916	643,462	-
Health and social services	-	-	-	-
Culture and recreation	364,896	106,865	72,408	-
Community/economic development	26,770	-	-	-
General government	1,058,489	296,551	34,314	-
Debt service	1,083,828	-	-	-
Capital projects	102,172	-	-	96,136
Total governmental activities	\$ 5,144,475	\$ 1,076,509	\$ 965,977	\$ 96,136
Business type activities:				
Sewer	\$ 539,208	\$ 986,149	\$ -	\$ -
Total business type activities	\$ 539,208	\$ 986,149	\$ -	\$ -
TOTAL PRIMARY GOVERNMENT	\$ 5,683,683	\$ 2,062,658	\$ 965,977	\$ 96,136
COMPONENT UNIT:				
Water Works	\$ 3,514,964	\$ 3,319,585	\$ -	\$ -
GENERAL RECEIPTS:				
Property taxes levied for:				
General purposes				
Tax incremental financing				
Debt service				
Hotel/Motel sales tax				
Grants and contributions not restricted				
Interest on investments				
Bond/note proceeds				
Miscellaneous				
Sale of assets				
Transfers				
TOTAL GENERAL RECEIPTS				
CHANGE IN CASH BASIS NET ASSETS				
CASH BASIS NET ASSETS, BEGINNING OF YEAR				
CASH BASIS NET ASSETS, END OF YEAR				
CASH BASIS NET ASSETS:				
Restricted				
Streets				
Employee benefits				
Debt service				
Other purposes				
Unrestricted				
TOTAL CASH BASIS NET ASSETS				

The Notes to Financial Statements are an integral part of this statement.

NET (DISBURSEMENTS)
RECEIPTS AND CHANGES

Governmental Activities	Business Type Activities	Total	Component Unit Water Works
\$ (927,123)	\$ -	\$ (927,123)	\$ -
(48,849)	-	(48,849)	-
-	-	-	-
(185,623)	-	(185,623)	-
(26,770)	-	(26,770)	-
(727,624)	-	(727,624)	-
(1,083,828)	-	(1,083,828)	-
(6,036)	-	(6,036)	-
<u>\$ (3,005,853)</u>	<u>\$ -</u>	<u>\$ (3,005,853)</u>	<u>\$ -</u>
\$ -	\$ 446,941	\$ 446,941	\$ -
\$ -	\$ 446,941	\$ 446,941	\$ -
<u>\$ (3,005,853)</u>	<u>\$ 446,941</u>	<u>\$ (2,558,912)</u>	<u>\$ -</u>
			<u>\$ (195,379)</u>
\$ 1,853,948	\$ -	\$ 1,853,948	\$ -
164,306	-	164,306	-
630,189	-	630,189	-
80,447	-	80,447	-
39,647	-	39,647	-
35,167	-	35,167	87,026
50,000	-	50,000	-
74,408	-	74,408	109,918
34,040	-	34,040	-
354,128	(354,128)	-	-
<u>\$ 3,316,280</u>	<u>\$ (354,128)</u>	<u>\$ 2,962,152</u>	<u>\$ 196,944</u>
\$ 310,427	\$ 92,813	\$ 403,240	\$ 1,565
1,483,361	438,616	1,921,977	3,545,479
<u>\$ 1,793,788</u>	<u>\$ 531,429</u>	<u>\$ 2,325,217</u>	<u>\$ 3,547,044</u>
\$ 104,029	\$ -	\$ 104,029	
253,145	-	253,145	
99,701	-	99,701	
530,122	453,967	984,089	
806,791	77,462	884,253	
<u>\$ 1,793,788</u>	<u>\$ 531,429</u>	<u>\$ 2,325,217</u>	

CITY OF CRESTON, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the Year Ended June 30, 2004

Exhibit B

	SPECIAL REVENUE		
		Road Use Tax	Employee Benefits
	General		
RECEIPTS:			
Property taxes	\$ 1,256,297	\$ -	\$ 446,189
Tax increment financing collections	-	-	-
Other city taxes	80,447	-	-
Licenses and permits	46,038	-	-
Use of money and property	92,390	-	-
Intergovernmental	467,961	632,735	216,526
Charges for service	523,048	6,425	-
Special assessments	768	-	-
Miscellaneous	104,907	14,113	61,889
Total receipts	\$ 2,571,856	\$ 653,273	\$ 724,604
DISBURSEMENTS:			
Operating:			
Public safety	\$ 1,230,699	\$ -	\$ -
Public works	477,772	673,455	-
Health and social services	-	-	-
Culture and recreation	364,896	-	-
Community/economic development	26,770	-	-
General government	378,687	-	679,800
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	\$ 2,478,824	\$ 673,455	\$ 679,800
EXCESS OF RECEIPTS OVER DISBURSEMENTS	\$ 93,032	\$ (20,182)	\$ 44,804
OTHER FINANCING SOURCES (USES):			
Short term note proceeds	\$ 50,000	\$ -	\$ -
Sale of capital assets	-	-	-
Operating transfers in	70,871	-	-
Operating transfers out	(49,713)	-	(7,038)
TOTAL OTHER FINANCING SOURCES (USES)	\$ 71,158	\$ -	\$ (7,038)
NET CHANGE IN CASH BALANCES	\$ 164,190	\$ (20,182)	\$ 37,766
CASH BALANCES, BEGINNING OF YEAR	642,601	124,211	215,379
CASH BALANCES, END OF YEAR	\$ 806,791	\$ 104,029	\$ 253,145
CASH BASIS FUND BALANCES:			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	806,791	-	-
Special revenue funds	-	104,029	253,145
Capital projects fund	-	-	-
Permanent fund	-	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 806,791	\$ 104,029	\$ 253,145

The Notes to Financial Statements are an integral part of this statement.

Debt Service	Other Nonmajor Governmental Funds	Total
\$ 630,189	\$ 150,694	\$ 2,483,369
-	164,306	164,306
-	-	80,447
-	-	46,038
-	-	92,390
-	84,877	1,402,099
-	-	529,473
-	-	768
-	70,974	251,883
<u>\$ 630,189</u>	<u>\$ 470,851</u>	<u>\$ 5,050,773</u>
\$ -	\$ 126,394	\$ 1,357,093
-	-	1,151,227
-	-	-
-	-	364,896
-	-	26,770
-	-	1,058,487
1,083,828	-	1,083,828
-	102,172	102,172
<u>\$ 1,083,828</u>	<u>\$ 228,566</u>	<u>\$ 5,144,473</u>
\$ (453,639)	\$ 242,285	\$ (93,700)
\$ -	\$ -	\$ 50,000
-	-	-
557,204	8,118	636,193
(16,000)	(209,315)	(282,066)
<u>\$ 541,204</u>	<u>\$ (201,197)</u>	<u>\$ 404,127</u>
\$ 87,565	\$ 41,088	\$ 310,427
12,136	489,034	1,483,361
<u>\$ 99,701</u>	<u>\$ 530,122</u>	<u>\$ 1,793,788</u>
\$ 99,701	\$ -	\$ 99,701
-	-	806,791
-	267,268	624,442
-	55,596	55,596
-	207,258	207,258
<u>\$ 99,701</u>	<u>\$ 530,122</u>	<u>\$ 1,793,788</u>

CITY OF CRESTON, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUND

As of and for the Year Ended June 30, 2004

	Exhibit C Enterprise Fund <u>Sewer</u>
OPERATING RECEIPTS:	
Charge for service	\$ 985,663
Total operating receipts	<u>\$ 985,663</u>
OPERATING DISBURSEMENTS:	
Business type activities	\$ 539,208
Total operating disbursements	<u>\$ 539,208</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>\$ 446,455</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):	
Interest on investments	\$ -
Miscellaneous	486
Debt service	-
Total non-operating receipts (disbursements)	<u>\$ 486</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>\$ 446,941</u>
OTHER FINANCING SOURCES (USES):	
Operating transfers in	\$ 8,000
Operating transfers out	(362,128)
Total other financing sources (uses)	<u>\$ (354,128)</u>
NET CHANGE IN CASH BALANCES	\$ 92,813
CASH BALANCES, BEGINNING OF YEAR	<u>438,616</u>
CASH BALANCES, END OF YEAR	<u><u>\$ 531,429</u></u>
CASH BASIS FUND BALANCES:	
Reserved for debt service	\$ -
Reserved for capital replacement	378,696
Reserved for storm water	75,271
Unreserved	77,462
Total cash basis fund balances	<u><u>\$ 531,429</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1. Summary of Significant Accounting Policies

The City of Creston, Iowa is a political subdivision of the State of Iowa located in Union County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

Reporting Entity

For financial reporting purposes, City of Creston 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 Creston (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit

The Creston City Water Works is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Water Works is governed by a five-member board appointed by the City Council and Water Works' operating budget is subject to the approval of the City Council.

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

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 revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

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

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

Unrestricted net assets consist of net assets 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 nonmajor governmental funds.

The City reports the following major governmental funds:

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

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 tax revenue for the use of payments for employee benefits.

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

The City reports the following major proprietary fund:

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

Measurement Focus and 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.

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.

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

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 general government and in the Capital Projects Fund prior to amendment.

Note 2. Deposits and Investments

The City's deposits at June 30, 2004, were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the City or the City's agent in the City's name or by a multiple financial institution collateral pool 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 and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are normally categorized to give an indication of the level of risk assumed by the City at year end. However, at June 30, 2004, the City had no investments subject to risk categorization. Net proceeds from defeasance of debt have been invested through an irrevocable trust.

Note 3. Bonds Payable and Other Debt

Annual debt service requirements to maturity for general obligation bonds and notes and other debts are as follows:

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 3. Bonds Payable and Other Debt (continued)

Year Ending June 30,	Principal				Total
	General Obligation Bonds	General Obligation Capital Loan Notes	Other Debt		
2005	\$ 105,000	\$ 360,000	\$ 288,784		\$ 753,784
2006	110,000	300,000	265,288		675,288
2007	110,000	140,000	203,000		453,000
2008	115,000	145,000	211,000		471,000
2009	120,000	---	220,000		340,000
2010	125,000	---	220,000		345,000
2011	130,000	---	230,000		360,000
2012	140,000	---	240,000		380,000
2013	145,000	---	250,000		395,000
2014	150,000	---	262,000		412,000
2015	160,000	---	274,000		434,000
2016	165,000	---	223,000		388,000
2017	175,000	---	233,000		408,000
2018	180,000	---	58,000		238,000
2019	190,000	---	---		190,000
	<u>\$2,120,000</u>	<u>\$ 945,000</u>	<u>\$3,178,072</u>		<u>\$ 6,243,072</u>

Year Ending June 30,	Interest				Total
	General Obligation Bonds	General Obligation Capital Loan Notes	Other Debt		
2005	\$ 103,720	\$ 21,585	\$ 143,649		\$ 268,954
2006	97,946	14,745	129,715		242,406
2007	91,896	7,845	117,111		216,852
2008	85,846	4,205	108,091		198,142
2009	80,612	---	98,711		179,323
2010	75,212	---	88,929		164,141
2011	69,462	---	79,075		148,537
2012	63,352	---	68,773		132,125
2013	56,702	---	58,022		114,724
2014	49,742	---	46,821		96,563
2015	42,468	---	35,084		77,552
2016	34,708	---	22,809		57,517
2017	26,706	---	12,855		39,561
2018	18,130	---	2,453		20,583
2019	9,310	---	---		9,310
	<u>\$ 905,812</u>	<u>\$ 48,380</u>	<u>\$ 1,012,098</u>		<u>\$1,966,290</u>

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 3. Bonds Payable and Other Debt (continued)

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

The resolutions providing for the issuance of the general obligation bonds and notes include the following provisions:

- (a) All taxes collected under levy shall be converted into a special fund in the Debt Service Fund.
- (b) Fund monies are to be used for payment of principal and interest of the bonds only.
- (c) All proceeds are to be invested in either direct obligations of the U.S. Government or deposited in banks which are members of the FDIC in FDIC insured accounts.
- (d) No use of bond or note proceeds is allowed which will cause them to be classified as arbitrage bonds or notes.
- (e) Project has not been and is not expected to be sold or disposed of prior to bond or note maturity.
- (f) Tax levies of adequate amount are ordered for bond and note repayments.

Other Debt

On November 7, 1995, the City entered into a note agreement with a financial institution for State Revolving Funds Loan to finance the construction of a sludge lagoon. The total loan award is for \$810,000. The balance at June 30, 2004 is \$532,000. On June 10, 1997, the City entered into a note agreement with a financial institution for a second State Revolving Funds Loan for additional financing of construction of the sludge lagoon and wastewater treatment plant improvements. The total loan award is for \$2,383,000. The balance at June 30, 2004, is \$1,776,000. The loans bear interest at 4.54% and interest payments are due June 1 and December 1. Principal payments are due June 1.

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 3. Bonds Payable and Other Debt (continued)

On March 20, 1998, the City entered into a note agreement with a financial institution for a third State Revolving Funds Loan for additional financing of construction of wastewater treatment plant improvements. The total loan award is for \$829,000. The balance at June 30, 2004, is \$646,000. The loan bears interest at 4.23% and interest payments are due June 1 and December 1. Principal payments are due June 1.

On July 1, 1997, the City entered into a note agreement with a financial institution for the construction of a street extension for \$60,000 at 6% interest. Interest payments are due June 30 and December 30. Principal payments are due June 30 and December 30 beginning December 30, 2000. The balance at June 30, 2004, is \$19,983.

On October 20, 1999, the City entered into a note agreement with a financial institution for the purchase of equipment for \$150,000 at 5% interest. Interest and principal payments are due October 20 beginning October 20, 2000. The balance at June 30, 2004, is \$32,943.

On February 21, 2001, the City entered into a note agreement with a financial institution for the purchase of equipment for \$291,034 at 5.75% interest. Interest payments are due June 30 and December 31. Principal payments are due June 30 beginning June 30, 2002. The balance at June 30, 2004 is \$121,146.

On June 1, 2004, the City entered into a note agreement with a financial institution for the purchase of equipment for \$50,000 at 3.75% interest. Interest payments are due June 4 and December 4. Principal payments are due June 4 beginning June 4, 2005. The balance at June 30, 2004 is \$50,000.

Note 4. Pension and Retirement Benefits

MFPRSI

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits which are established by State statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104th Street, Urbandale, Iowa, 50322.

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 4. Pension and Retirement Benefit (continued)

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 20.48% of earnable compensation. Contribution requirements are established by State statute. The City's contribution to the Plan for the years ended June 30, 2004, 2003, and 2002 was \$126,394, \$114,280, and \$111,823 respectively, which met the required minimum contribution for each year.

IPERS

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for protection employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2004, 2003, and 2002 was \$51,894, \$53,704, and \$54,282 respectively, equal to the required contribution for each year.

Note 5. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. They also accumulate a limited amount of sick leave hours which are available for subsequent use only. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

CITY OF CRESTON, IOWA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2004

Note 5. Compensated Absences (continued)

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 154,856
Sick leave	<u>398,175</u>
Total	<u>\$ 553,031</u>

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

Note 6. Related Party Transactions

The City has title to all the land and buildings used by the Creston City Water Works. The Mayor appoints and the City Council confirms the appointments to the Water Works Board of Trustees.

The Water Works determines fees charged to users and also charges the City for usage. The Water Works collects sewage and garbage fees for the City of Creston. Funds collected are remitted to the City monthly. The City received \$964,798 for sewer rental and \$437,326 for garbage collections from the Water Works for the year ended June 30, 2004. The City paid the Water Works \$9,088 for utilities.

The City of Creston and the Creston City Water Works are covered under the same insurance policy. Each year the City pays the total policy premium and the Water Works reimburses the City for its share of the cost. During the year ended June 30, 2004, the Water Works reimbursed the City \$37,987.

As of June 30, 2004, the Water Works owes the following to the City of Creston:

Sewer rental	\$ 125,845
Garbage collections	<u>59,529</u>
	<u>\$ 185,374</u>

In March, 1996, an agreement was entered into between the City and Water Works for the Water Works to pay the City rent of \$500 per month. The Water Works paid the City \$6,000 during the year ended June 30, 2004.

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 6. Related Party Transactions (continued)

The City provides health insurance for employees of both the City and the Water Works under its self-funded health insurance plan. For the year ended June 30, 2004, the City was reimbursed \$216,526 from the Water Works for claims and premiums paid on behalf of the Water Works employees.

The City had business transactions between the City and City officials totaling \$10,905 during the year ended June 30, 2004.

Note 7. Risk Management

The City of Creston is exposed to various risk 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. Settled claims from these risks did not exceed commercial insurance coverage during the year ended June 30, 2004.

Note 8. Commitments

Garbage Collection

The City of Creston has renewed its contract for garbage collection for the fiscal year ending June 30, 2004, and the contract is for a period of six years.

Airport Operations

The City has entered into an agreement with a contractor to operate and maintain the Creston Municipal Airport for the fiscal year ending June 30, 2005, for \$32,500. The contractor is responsible for all maintenance, upkeep and repairs of the airport and has the option of operating as a fixed based operator. The City is responsible for providing for utilities for the runway lighting, taxiing, lighted windsock, rotating light beacon, and radio homing beacon and for all parts and repairs necessary for these items. The agreement is for a period of one year.

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 8. Commitments (continued)

Self-Funded Health Insurance

The City provides health insurance to its employees through a self-funded health insurance plan. Under the self-insured plan, the City pays claims from its employee benefits special revenue fund up to maximum limits and carries stop loss insurance for claims in excess of the limits. The City records the cost of these claims when paid; therefore, the cost of claims incurred but unpaid have not been recorded in the financial statements.

Environmental Insurance

During March, 1998, the City approved committing \$1,000,000 of its bonding capacity in lieu of purchasing liability insurance for protection of possible environmental contingencies related to underground storage tanks owned by the City.

Note 9. Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizens 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:

Union County Assessors Conference Board, Union County Emergency Management Commission, Union County Solid Waste Management Commission, Union County Development Association Public Funding Council, ATURA (Adams, Taylor, Union, Ringgold, Adair).

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 10. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special Revenue:	
	Emergency	\$ 35,574
	Library building	27,184
	Cemetery betterment	113
	Debt service	<u>8,000</u>
		<u>\$ 70,871</u>
Debt service	General	\$ 41,594
	Special revenue:	
	Urban renewal tax	
	Increment	144,222
	Fire and police	
	Retirement	2,222
	Employee benefits	7,038
	Enterprise:	
	Sewer	<u>362,128</u>
		<u>\$557,204</u>
Capital projects	General	<u>\$ 4,250</u>
Special revenue:		
Library building	General	<u>\$ 3,868</u>
Enterprise:		
Sewer	Debt service	<u>\$ 8,000</u>
Total		<u>\$644,193</u>

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

Note 11 Litigation

The City is a party to pending litigation along with the Creston City Water Works concerning the construction of a new water tower. The litigation is just beginning and it is difficult to determine the nature and extent of any damages or expenses that may come from this litigation.

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 12. Subsequent Events

In August 2004, the City received notification of receipt of a grant approval from the Federal Aviation Administration in the amount of not to exceed \$95,558 for the purpose of making upgrades and improvements at the Creston City Airport.

Note 13. Accounting Change and Restatements

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, were implemented for the fiscal year ending 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

CITY OF CRESTON, IOWA
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSMENTS
 AND CHANGES IN BALANCES - ACTUAL TO BUDGET (CASH BASIS) -
 ALL GOVERNMENTAL AND PROPRIETARY FUNDS
 Year Ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required To Be Budgeted
RECEIPTS:			
Property tax	\$ 2,483,369	\$ -	\$ -
Tax increment financing collections	164,306	-	-
Other city tax	80,447	-	-
Licenses and permits	46,038	-	-
Use of money and property	92,390	-	-
Intergovernmental	1,402,099	-	-
Charges for service	529,473	985,663	-
Special assessments	768	-	-
Miscellaneous	251,883	486	-
TOTAL RECEIPTS	<u>\$ 5,050,773</u>	<u>\$ 986,149</u>	<u>\$ -</u>
DISBURSEMENTS:			
Public safety	\$ 1,357,093	\$ -	\$ -
Public works	1,151,227	-	-
Health and social services	-	-	-
Culture and recreation	364,896	-	-
Community and economic development	26,770	-	-
General government	1,058,487	-	-
Debt service	1,083,828	-	-
Capital projects	102,172	-	-
Business type activities	-	539,208	-
TOTAL DISBURSEMENTS	<u>\$ 5,144,473</u>	<u>\$ 539,208</u>	<u>\$ -</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	\$ (93,700)	\$ 446,941	\$ -
OTHE FINANCING SOURCES, NET	<u>404,127</u>	<u>(354,128)</u>	<u>-</u>
EXCESS OF RECEIPTS AND OTHER FINANCING SOURCES OVER DISBURSEMENTS AND OTHER FINANCING USES	\$ 310,427	\$ 92,813	\$ -
BALANCE, BEGINNING OF YEAR	<u>1,483,361</u>	<u>438,616</u>	<u>-</u>
BALANCE, END OF YEAR	<u><u>\$ 1,793,788</u></u>	<u><u>\$ 531,429</u></u>	<u><u>\$ -</u></u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$2,483,369	\$2,276,970	\$2,276,970	\$ 206,399
164,306	179,820	172,300	(7,994)
80,447	219,243	209,638	(129,191)
46,038	22,665	56,726	(10,688)
92,390	48,370	51,870	40,520
1,402,099	969,230	1,114,185	287,914
1,515,136	1,725,330	1,828,217	(313,081)
768	-	-	768
252,369	90,409	270,899	(18,530)
<u>\$6,036,922</u>	<u>\$5,532,037</u>	<u>\$5,980,805</u>	<u>\$ 56,117</u>
\$1,357,093	\$1,157,878	\$1,433,716	\$ 76,623
1,151,227	1,097,764	1,185,335	34,108
-	-	-	-
364,896	408,676	433,509	68,613
26,770	29,295	35,065	8,295
1,058,487	1,021,530	1,023,379	(35,108)
1,083,828	1,165,227	1,165,227	81,399
102,172	-	195,500	93,328
539,208	614,412	690,247	151,039
<u>\$5,683,681</u>	<u>\$5,494,782</u>	<u>\$6,161,978</u>	<u>\$ 478,297</u>
\$ 353,241	\$ 37,255	\$ (181,173)	\$ (534,414)
49,999	2,500	53,846	3,847
\$ 403,240	\$ 39,755	\$ (127,327)	<u>\$ (530,567)</u>
<u>1,921,977</u>	<u>5,039,576</u>	<u>5,039,576</u>	
<u>\$2,325,217</u>	<u>\$5,079,331</u>	<u>\$4,912,249</u>	

CITY OF CRESTON, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2004

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 non-program. 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 \$667,196. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the general government.

OTHER SUPPLEMENTARY INFORMATION

CITY OF CRESTON, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2004

Schedule 1

	Special Revenue		
	Police and Fire Retirement	Emergency	Urban Renewal Tax Increment
	RECEIPTS:		
Property tax	\$ 115,120	\$ 35,574	\$ -
Tax increment financing collections	-	-	164,306
Other city tax	-	-	-
Licenses and permits	-	-	-
Uses of money and property	-	-	-
Intergovernmental	-	-	-
Charges for services	-	-	-
Special assessments	-	-	-
Miscellaneous	-	-	-
TOTAL RECEIPTS	\$ 115,120	\$ 35,574	\$ 164,306
DISBURSEMENTS:			
Operating:			
Public safety	\$ 126,394	\$ -	\$ -
Public works	-	-	-
Health and social services	-	-	-
Culture and recreation	-	-	-
Community and economic development	-	-	-
General government	-	-	-
Debt service	-	-	-
Capital projects	-	-	-
TOTAL DISBURSEMENTS	\$ 126,394	\$ -	\$ -
EXCESS OF RECEIPTS OVER DISBURSEMENTS	\$ (11,274)	\$ 35,574	\$ 164,306
OTHE FINANCING SOURCES (USES):			
Short term note proceeds	\$ -	\$ -	\$ -
Sale of capital assets	-	-	-
Operating transfers in	-	-	-
Operating transfers out	(2,222)	(35,574)	(144,222)
TOTAL OTHER FINANCING SOURCES (USES)	\$ (2,222)	\$ (35,574)	\$ (144,222)

See accompanying independent auditor's report.

Special Revenue			Permanent		Total
Library Building	Cemetery Betterment	Capital Projects	Cemetery Perpetual Care	Cemetery Perpetual Decoration	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 150,694
-	-	-	-	-	164,306
-	-	-	-	-	-
-	-	-	-	-	-
-	-	84,877	-	-	84,877
-	-	-	-	-	-
-	-	-	-	-	-
55,695	-	11,259	4,020	-	70,974
<u>\$ 55,695</u>	<u>\$ -</u>	<u>\$ 96,136</u>	<u>\$ 4,020</u>	<u>\$ -</u>	<u>\$ 470,851</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 126,394
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	102,172	-	-	102,172
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 102,172</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 228,566</u>
<u>\$ 55,695</u>	<u>\$ -</u>	<u>\$ (6,036)</u>	<u>\$ 4,020</u>	<u>\$ -</u>	<u>\$ 242,285</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
3,868	-	4,250	-	-	8,118
(27,184)	(113)	-	-	-	(209,315)
<u>\$ (23,316)</u>	<u>\$ (113)</u>	<u>\$ 4,250</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (201,197)</u>

CITY OF CRESTON, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2004

Schedule 1

	Special Revenue		
	Police and Fire Retirement	Emergency	Urban Renewal Tax Increment
NET CHANGE IN CASH BALANCES	\$ (13,496)	\$ -	\$ 20,084
CASH BALANCES, BEGINNING OF YEAR	31,418	-	141,628
CASH BALANCES, END OF YEAR	\$ 17,922	\$ -	\$ 161,712
CASH BASIS FUND BALANCES:			
Reserve:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	-	-	-
Special revenue funds	17,922	-	161,712
Capital projects fund	-	-	-
Permanent fund	-	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 17,922	\$ -	\$ 161,712

See accompanying independent auditor's report.

Special Revenue			Permanent		Total
Library Building	Cemetery Betterment	Capital Projects	Cemetery Perpetual Care	Cemetery Perpetual Decoration	
\$ 32,379	\$ (113)	\$ (1,786)	\$ 4,020	\$ -	\$ 41,088
48,568	6,800	57,382	180,451	22,787	489,034
<u>\$ 80,947</u>	<u>\$ 6,687</u>	<u>\$ 55,596</u>	<u>\$ 184,471</u>	<u>\$ 22,787</u>	<u>\$ 530,122</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
80,947	6,687	-	-	-	267,268
-	-	55,596	-	-	55,596
-	-	-	184,471	22,787	207,258
<u>\$ 80,947</u>	<u>\$ 6,687</u>	<u>\$ 55,596</u>	<u>\$ 184,471</u>	<u>\$ 22,787</u>	<u>\$ 530,122</u>

CITY OF CRESTON, IOWA
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2004

Schedule 2

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>
General obligation bonds:			
Defeasance of debt	June 1, 1993	2.50-5.00%	2,510,000
General corporate purpose	May 18, 1999	4.90-5.55%	2,500,000
Total			
General obligation capital loan notes:			
Refunding notes	March 3, 2003	1.55-2.90%	1,295,000
Total			
Other debt:			
State Revolving Funds Loan	Nov. 7, 1995	4.54%	810,000
State Revolving Funds Loan	June 10, 1997	4.54%	2,383,000
State Revolving Funds Loan	March 20, 1998	4.23%	829,000
Sumner Street Ext. Loan	July 1, 1997	6.00%	60,000
Equipment note	October 20, 1999	5.00%	150,000
Equipment note	February 21, 2001	5.75%	291,034
Equipment note	June 1, 2004	3.75%	50,000
Total			

The Notes to Financial Statements are an integral part of this statement.

<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>
\$ 65,000	\$ -	\$ 65,000	\$ -	\$ 2,375	\$ -
<u>2,220,000</u>	<u>-</u>	<u>100,000</u>	<u>2,120,000</u>	<u>109,220</u>	<u>-</u>
<u>\$ 2,285,000</u>	<u>\$ -</u>	<u>\$ 165,000</u>	<u>\$ 2,120,000</u>	<u>\$ 111,595</u>	<u>\$ -</u>
\$ 1,295,000	\$ -	\$ 350,000	\$ 945,000	\$ 33,763	\$ -
<u>\$ 1,295,000</u>	<u>\$ -</u>	<u>\$ 350,000</u>	<u>\$ 945,000</u>	<u>\$ 33,763</u>	<u>\$ -</u>
\$ 569,000	\$ -	\$ 37,000	\$ 532,000	\$ 25,833	\$ -
1,875,000	-	99,000	1,776,000	85,125	-
679,000	-	33,000	646,000	28,722	-
30,000	-	10,017	19,983	1,633	-
64,380	-	31,437	32,943	3,220	-
179,385	-	58,239	121,146	10,246	-
<u>-</u>	<u>50,000</u>	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>-</u>
<u>\$ 3,396,765</u>	<u>\$ 50,000</u>	<u>\$ 268,693</u>	<u>\$ 3,178,072</u>	<u>\$ 154,779</u>	<u>\$ -</u>

CITY OF CRESTON, IOWA
BOND AND OTHER DEBT MATURITIES
JUNE 30, 2004

Schedule 3

Year Ending June 30,	General Obligation Bonds		General Obligation Capital Loan Notes	
	General Purpose		Refunding Notes	
	Issued May 18, 1999		Issued March 1, 2003	
	Interest Rates	Amount	Interest Rates	Amount
2005	5.50	\$ 105,000	1.90	\$ 360,000
2006	5.50	110,000	2.30	300,000
2007	5.50	110,000	2.60	140,000
2008	4.55	115,000	2.90	145,000
2009	4.50	120,000	---	-
2010	4.60	125,000	---	-
2011	4.70	130,000	---	-
2012	4.75	140,000	---	-
2013	4.80	145,000	---	-
2014	4.85	150,000	---	-
2015	4.85	160,000	---	-
2016	4.85	165,000	---	-
2017	4.90	175,000	---	-
2018	4.90	180,000	---	-
2019	4.90	190,000	---	-
Total		<u>\$2,120,000</u>		<u>\$ 945,000</u>

Other Debt

Year Ending June 30,	State Revolving Funds Loan		State Revolving Funds Loan	
	Dated November 7, 1995		Dated June 10, 1997	
	Interest Rates	Amount	Interest Rates	Amount
2005	4.54	\$ 38,000	4.54	\$ 103,000
2006	4.54	40,000	4.54	108,000
2007	4.54	42,000	4.54	113,000
2008	4.54	44,000	4.54	118,000
2009	4.54	46,000	4.54	123,000
2010	4.54	48,000	4.54	129,000
2011	4.54	50,000	4.54	135,000
2012	4.54	52,000	4.54	141,000
2013	4.54	55,000	4.54	147,000
2014	4.54	57,000	4.54	154,000
2015	4.54	60,000	4.54	161,000
2016	4.54	-	4.54	168,000
2017	---	-	4.54	176,000
2018	---	-	---	-
		<u>\$ 532,000</u>		<u>\$1,776,000</u>

See accompanying independent auditor's report.

Other Debt

State Revolving Funds Loan		Street Extension Loan		Equipment Loan	
Dated March 20, 1998		Dated July 1, 1997			
Interest Rates	Amount	Interest Rates	Amount	Interest Rate	Amount
4.23	\$ 35,000	6.00	\$10,000	5.00	\$ 32,943
4.23	36,000	6.00	9,983	---	-
4.23	38,000	---	-	---	-
4.23	39,000	---	-	---	-
4.23	41,000	---	-	---	-
4.23	43,000	---	-	---	-
4.23	45,000	---	-	---	-
4.23	47,000	---	-	---	-
4.23	48,000	---	-	---	-
4.23	51,000	---	-	---	-
4.23	53,000	---	-	---	-
4.23	55,000	---	-	---	-
4.23	57,000	---	-	---	-
4.23	58,000	---	-	---	-
---	-	---	-	---	-
	<u>\$646,000</u>		<u>\$19,983</u>		<u>\$ 32,943</u>

Other Debt

Equipment Loan		Equipment Loan		Total Other Debt
Interest Rates	Amount	Interest Rates	Amount	
5.75	\$ 59,841	3.75	\$10,000	\$ 288,784
5.75	61,305	3.75	10,000	265,288
---	-	3.75	10,000	203,000
---	-	3.75	10,000	211,000
---	-	3.75	10,000	220,000
---	-	---	-	220,000
---	-	---	-	230,000
---	-	---	-	240,000
---	-	---	-	250,000
---	-	---	-	262,000
---	-	---	-	274,000
---	-	---	-	223,000
---	-	---	-	233,000
---	-	---	-	58,000
	<u>\$121,146</u>		<u>\$50,000</u>	<u>\$3,178,072</u>

CITY OF CRESTON, IOWA
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS
BY FUNCTION - ALL GOVERNMENTAL FUNDS
For the Last Four Years

Schedule 4

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
RECEIPTS:				
Property tax	\$2,483,369	\$2,338,422	\$2,374,839	\$2,421,473
Tax incremental financing collections	164,306	149,708	88,740	60,671
Other city tax	80,447	13,285	-	-
Licenses and permits	46,038	30,384	30,924	21,662
Uses of money and property	92,390	79,576	103,976	146,718
Intergovernmental	1,402,099	1,272,239	1,321,996	1,588,274
Charges for services	529,473	473,254	580,992	560,615
Special assessments	768	-	-	-
Miscellaneous	251,883	199,765	274,962	205,185
TOTAL	<u><u>\$5,050,773</u></u>	<u><u>\$4,556,633</u></u>	<u><u>\$4,776,429</u></u>	<u><u>\$5,004,598</u></u>
DISBURSEMENTS:				
Operating:				
Public safety	\$1,357,093	\$1,217,445	\$1,288,567	\$1,234,435
Public works	1,151,227	1,065,402	1,121,466	1,205,830
Health and social services	-	-	-	-
Culture and recreation	364,896	422,770	418,304	413,187
Community and economic development	26,770	26,827	26,541	26,752
General government	1,058,487	1,105,507	1,199,160	1,503,749
Debt service	1,083,828	2,369,043	1,360,382	1,285,937
Capital projects	102,172	100,868	7,868	20,066
TOTAL	<u><u>\$5,144,473</u></u>	<u><u>\$6,307,862</u></u>	<u><u>\$5,422,288</u></u>	<u><u>\$5,689,956</u></u>

See accompanying independent auditor's report.

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 Creston, Iowa

We have audited the financial statements of the City of Creston, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 4, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, 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 City of Creston, Iowa, 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. However, we noted certain immaterial instances of noncompliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 been resolved except for items 2003-II-2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Creston, Iowa'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 the internal control over financial reporting that, in our judgment, could adversely affect the City of Creston, Iowa's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in of the accompanying Schedule of Findings.

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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. Prior year reportable conditions have been resolved except for items 2003-I-A.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Creston, Iowa, and other parties to whom the City of Creston, Iowa, may report and is not intended to be and should not be used by anyone other than these specified parties.

Drapen, Smidgrass, Mickelson + Co., P.C.

August 4, 2004

CITY OF CRESTON, IOWA
SCHEDULE OF FINDINGS
Year Ended June 30, 2004

Part I: Reportable Conditions:

2004-I-A Segregation of duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of the aspects of accounting internal controls which rely on adequate segregation of duties, for all reasonable purposes, are missing in the City.

Recommendation: We realize that it may not be economically feasible for the City of Creston to employ additional personnel for the sole purpose of segregating duties, however, we feel it is our professional responsibility to bring the control deficiency to your attention. We would recommend that the Council be aware of the lack of segregation of duties and that they act as an oversight group to the City finance office.

Response and corrective action planned: The City of Creston Finance Office will segregate duties to the extent possible with the current number of employees. Additional review of the financial information will be performed by the City Council to ensure transactions and duties are being performed in accordance with the procedures established by the City Council.

Conclusion: Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

2004-II-1 Official Depositories: A resolution naming official depositories has been adopted by the Council. During the audit, no deposits in excess of the limits stated were noted.

2004-II-2 Certified Budget: Disbursements during the year ended June 30, 2004, exceeded the amounts budgeted in the Capital Projects Function prior to the budget amendment and in the General Government Function after the budget amendment. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

CITY OF CRESTON, IOWA
 SCHEDULE OF FINDINGS
 Year Ended June 30, 2004

Response: The City will review budget amendments on a more timely basis to ensure that it stays in compliance with Chapter 364.18 of the Code of Iowa.

Conclusion: Response acknowledged.

2004-II-3 Questionable Disbursements: During the audit, we noted no expenditures for parties, banquets or other entertainment for employees or Council members that we believe may constitute an unlawful expenditure of public funds as defined in an Attorney General's opinion dated April 25, 1979.

2004-II-4 Travel Expense: No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.

2004-II-5 Business Transactions: Business transactions between the City and City officials and/or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Description</u>	<u>Amount</u>
Larry Wynn, previous Mayor owner, F&M Body Shop	Repairs	\$ 5,735
Randall Rief Cemetery employee	Maintenance	75
Mark Zellmer, Planning and Zoning Committee Owner, Zellmer's Soft Wager	Maintenance	290
Randy Nurnberg Volunteer fire fighter	Heating and cooling system	4,806

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the cemetery employee and Planning and Zoning Committee member do not appear to represent a conflict of interest since the total transaction with the individual was less than \$1,500 during the fiscal year. The amount with the mayor includes for repairs on a city vehicle and equipment for which estimates were obtained prior to the repairs. The amount for the volunteer fire fighter was for a new heating and cooling system at the fire station of which quotes were obtained prior to the installation.

CITY OF CRESTON, IOWA
SCHEDULE OF FINDINGS
Year Ended June 30, 2004

- 2004-II-6 Bond Coverage: Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 2004-II-7 Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.
- 2004-II-8 Revenue Bonds: The City does not have revenue bonds, only general obligation bonds.
- 2004-II-9 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.