

CITY OF CRESCO, IOWA
FINANCIAL STATEMENTS
JUNE 30, 2005

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Officials

Name	Title	Term Expires
Elected Officials		
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, 2005 which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City'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 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, 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2005 on our consideration of the City of Cresco's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Honorable Mayor and
Members of the City Council
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Management's Discussion and Analysis and budgetary comparison information on Pages 4 through 10 and Page 22 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. We previously audited the financial statements and supplemental data for the three years ended June 30, 2004 (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 23 through 28 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
August 4, 2005

City of Cresco, Iowa
Management's Discussion and Analysis
June 30, 2005

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

2005 FINANCIAL HIGHLIGHTS

Revenue of the City's governmental activities increased approximately \$43,800 from fiscal year 2004 to fiscal year 2005. This increase is due to increases in T.I.F. collections, local option sales tax and special assessments.

Disbursements increased approximately \$530,000 in fiscal year 2005 from fiscal year 2004. Part of this change was in the community and economic development function, where more monies were spent on T.I.F. and revolving loans in fiscal year 2005 than 2004. There was also an increase in Public Safety due to the purchase of Fire Department equipment.

The City's total cash basis net assets decreased approximately \$143,000 from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities decreased approximately \$107,000 and the assets of the business-type activities decreased by approximately \$36,000.

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 - cash basis. 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; health and social services; 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, Urban Renewal T.I.F. Area, Expendable Trust, Local Option Sales Tax, T.I.F. #1, T.I.F. #2, 2005 CDBG Housing Rehabilitation, 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.

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, Water Utility and Replacement and Water Meter Deposits. Another enterprise fund is Yard Waste and Recycling.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

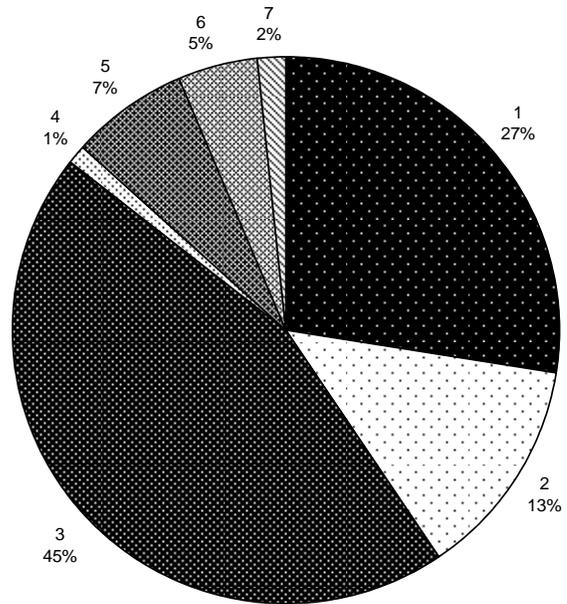
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from \$2,431,178 a year ago to \$2,324,359. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year Ended June 30,</u>	
	2005	2004
Receipts and Transfers		
Program Receipts		
Charges for service	\$ 975,623	\$ 993,182
Operating grants, contributions and restricted interest	463,704	480,216
General Receipts		
Property tax	1,607,255	1,524,671
Other city tax	41,208	40,755
Local option sales tax	247,025	244,657
Interfund loan activity	166,959	—
Unrestricted interest on investments	24,741	23,716
Other general receipts	9,434	17,943
Transfers, net	<u>24,778</u>	<u>25,248</u>
Total Receipts and Transfers	<u>3,560,727</u>	<u>3,350,388</u>
Disbursements		
Public safety	752,035	547,742
Public works	961,408	874,340
Health and social services	2,952	2,952
Culture and recreation	802,011	759,001
Community and economic development	481,581	55,638
General government	223,228	213,015
Debt service	432,078	442,901
Capital projects	<u>12,253</u>	<u>207,339</u>
Total Disbursements	<u>3,667,546</u>	<u>3,102,928</u>
Increase (Decrease) in Cash Basis Net Assets	(106,819)	247,460
Cash basis net assets - beginning of year	<u>2,431,178</u>	<u>2,183,718</u>
Cash Basis Net Assets - End of Year	<u>\$ 2,324,359</u>	<u>\$ 2,431,178</u>

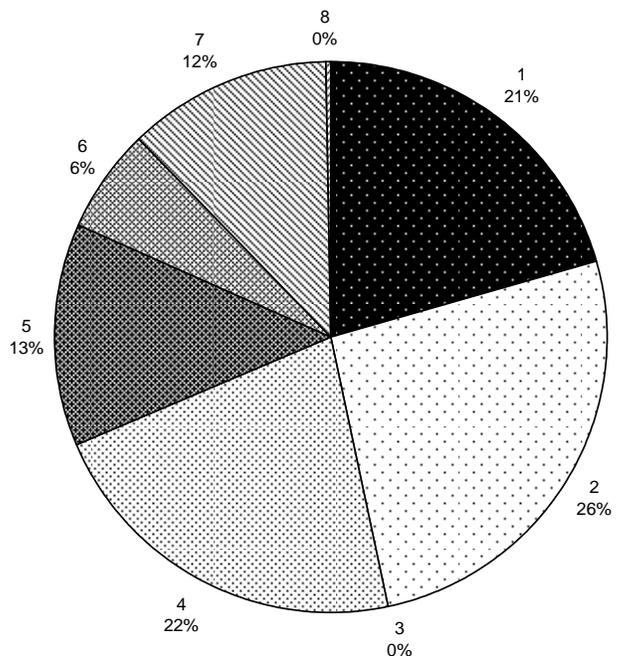
Receipts 2005

1. Charges for service	\$ 975,623
2. Operating grants	463,704
3. Property tax	1,607,255
4. Other city tax	41,208
5. Local option sales tax	247,025
6. Interfund loans	166,959
7. Other	<u>58,953</u>
Total	<u>\$ 3,560,727</u>



Disbursements 2005

1. Public safety	\$ 752,035
2. Public works	961,408
3. Social services	2,952
4. Culture and recreation	802,011
5. Economic development	481,581
6. Government	223,228
7. Debt	432,078
8. Capital projects	<u>12,253</u>
Total	<u>\$ 3,667,546</u>



The City's total receipts for governmental activities increased by 6.3%, or \$210,339. The significant increase was due to additional collections of T.I.F. monies, local option sales tax and interfund loans. The City did not increase property tax rates for the fiscal year 2005.

The total cost of all programs and services increased by \$564,618, or 18.2%. The majority of this increase was in the community and economic development function area, due to the City awarding many more grants and loans during the current year as compared to the previous year and in public safety due to equipment purchased for the Fire Department.

Changes in Cash Basis Net Assets of Business-Type Activities

	Year Ended June 30,	
	2005	2004
Receipts		
Program Receipts		
Charges for Service		
Water	\$ 312,573	\$ 305,943
Sewer revenue	570,982	564,483
Other proprietary	42,919	42,591
General Receipts		
Loan payments	126,201	12,619
Unrestricted interest on investments	18,294	17,864
Other general receipts	—	1,301
Total Receipts	1,070,969	944,801
Disbursements and Transfers		
Water	303,160	285,777
Sewer operation and maintenance	404,249	374,716
Sewer replacement	5,222	88,227
Interfund loan	293,160	—
Other proprietary	76,425	74,976
Transfers, net	24,778	25,248
Total Disbursements and Transfers	1,106,994	848,944
Increase (Decrease) in Cash Basis Net Assets	(36,025)	95,857
Cash basis net assets - beginning of year	1,447,529	1,351,672
Cash Basis Net Assets - End of Year	\$ 1,411,504	\$ 1,447,529

Total business-type activities receipts for the fiscal year were \$1,070,969 compared to \$944,801 last year. The increase was in collections of charges for service, miscellaneous receipts and increase in loan payments. The cash balance decreased by approximately \$36,000, or 2.5%, over the prior year. Total disbursements and transfers for the fiscal year increased by 30% to a total of \$1,106,994. This increase was primarily due to sewer system repairs and interfund loan activity.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City of Cresco's governmental funds reported a combined fund balance of \$2,324,359, a decrease of \$106,819 from last year's total of \$2,431,178.

The following are the major reasons for the changes in fund balances of the major funds from the prior year:

The General Fund cash balance decreased \$23,967 from the prior year to \$714,220. This decrease was largely due to the City's expenditures for equipment and repairs to City buildings.

The Road Use Tax Fund cash balance decreased by \$16,240 to \$519,690 during the fiscal year. This decrease is due to the use of monies from the Local Option Sales Tax Fund in 2005 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 decreased \$10,083 to \$194,570 during the fiscal year. This year the City received \$344,827 in property taxes with additional revenue coming from interest on a certificate of deposit and utility tax replacement. Total revenue was \$362,595. This fund pays FICA, Medicare, IPERS, unemployment claims, health and life insurance for employees, except those employees paid from the water and sewer utilities. Expenses rose \$52,354, which contributed to the decreased cash balance.

The Urban Renewal T.I.F. Area is a new fund due to the combination to two prior T.I.F. districts. Total taxes received were \$350,621 and the fund received interfund loans in the amount of \$293,160 and transfers from the prior T.I.F. funds of \$250,554, with expenditures of \$673,564. This fund ended the year with a balance of \$225,973.

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 \$233,393, a decrease of \$136,654 from the previous year. The decrease was the result of fire equipment and other equipment purchases.

The Debt Service Fund cash balance decreased \$9,008 to \$64,366 during the fiscal year. This decrease was due to less property tax receipts.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The Water Utility Fund cash balance decreased by \$257,903 to \$356,563, due to an interfund loan made and the transfer of funds to a replacement fund.

The Municipal Sanitary Sewer Utility Revenue Fund cash balance decreased by \$15,754 to \$154,210 due to an increase in expenditures.

The Municipal Sanitary Sewer Utility Operation and Maintenance Fund cash balance increased \$21,059 to \$85,765, due primarily to decreases in operation and maintenance expenses of the sewer plant and system.

The Municipal Sanitary Sewer Utility Replacement Fund cash balance increased \$79,802 to \$442,718, due to transfers to cover utility replacement expenses.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget three times. The first amendment was approved on October 18, 2004, the second was approved on January 17, 2005 and the third on May 16, 2005. All amendments resulted in increases in receipts and expenses for grants, T.I.F. loans, equipment purchases and transfers.

DEBT ADMINISTRATION

At June 30, 2005, the City had \$1,294,000 in general obligation debt, \$517,000 in revenue bonds and \$316,516 in other indebtedness.

Outstanding Debt at Year End

General obligation notes	\$ 899,000
General obligation bonds	395,000
Revenue bonds	517,000
Rural community loan	23,356
Interfund loan	<u>293,160</u>

Totals **\$ 2,127,516**

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 \$1,294,000 is significantly below its constitutional debt limit of \$4,047,327. There were no new bonds issued during the year.

The City has combined two T.I.F. areas: the industrial T.I.F. and the business T.I.F. into the Urban Renewal T.I.F. Area. The T.I.F. has five loans at the present time. Two are interfund loans. 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 2006 budget, tax rates and fees that will be charged for various City activities. Bank franchise fees were eliminated at the beginning of this fiscal year. In addition to this legislative change, 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.

The City also needs to pave a number of streets. A five-year plan is being developed for this project.

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, 2005

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	\$ 752,035	\$ 32,934	\$ 69,540	\$ —	\$ (649,561)	\$ —	\$ (649,561)	\$ —
Public works	961,408	461,750	324,685	—	(174,973)	—	(174,973)	—
Health and social services	2,952	—	—	—	(2,952)	—	(2,952)	—
Culture and recreation	802,011	399,944	22,280	—	(379,787)	—	(379,787)	—
Community and economic development	481,581	—	47,199	—	(434,382)	—	(434,382)	—
General government	223,228	40,303	—	—	(182,925)	—	(182,925)	—
Debt service	432,078	—	—	—	(432,078)	—	(432,078)	—
Capital projects	12,253	40,692	—	—	28,439	—	28,439	—
Total Governmental Activities	3,667,546	975,623	463,704	—	(2,228,219)	—	(2,228,219)	—
Business-Type Activities								
Water	303,160	312,573	—	—	—	9,413	9,413	—
Sewer revenue	—	570,982	—	—	—	570,982	570,982	—
Sewer operation and maintenance	404,249	—	—	—	—	(404,249)	(404,249)	—
Sewer replacement	5,222	—	—	—	—	(5,222)	(5,222)	—
Other proprietary	76,425	42,919	—	—	—	(33,506)	(33,506)	—
Total Business-Type Activities	789,056	926,474	—	—	—	137,418	137,418	—
Total	\$ 4,456,602	\$ 1,902,097	\$ 463,704	\$ —	(2,228,219)	137,418	(2,090,801)	—
Component Unit								
Cresco Public Library Foundation	\$ 12,310	—	\$ 6,761	—	—	—	—	(5,549)
General Receipts								
Property Tax Levied for								
General purposes					661,272	—	661,272	—
Tax increment financing					352,806	—	352,806	—
Debt service					248,350	—	248,350	—
Employee benefits					344,827	—	344,827	—
Other City tax					41,208	—	41,208	—
Local option sales tax					247,025	—	247,025	—
Interfund loan activity					166,959	(166,959)	—	—
Unrestricted interest on investments					24,741	18,294	43,035	2,926
Miscellaneous					9,434	—	9,434	—
Transfers					24,778	(24,778)	—	—
Total General Receipts and Transfers					2,121,400	(173,443)	1,947,957	2,926
Change in Cash Basis Net Assets					(106,819)	(36,025)	(142,844)	(2,623)
Cash Basis Net Assets - Beginning of Year					2,431,178	1,447,529	3,878,707	179,945
Cash Basis Net Assets - End of Year					\$ 2,324,359	\$ 1,411,504	\$ 3,735,863	\$ 177,322
Cash Basis Net Assets								
Restricted								
Streets					\$ 519,690	\$ —	\$ 519,690	\$ —
Urban renewal purposes					225,973	—	225,973	—
Debt service					64,366	152,382	216,748	—
Capital projects					117,618	—	117,618	—
Other purposes					682,492	—	682,492	—
Unrestricted					714,220	1,259,122	1,973,342	177,322
Total Cash Basis Net Assets					\$ 2,324,359	\$ 1,411,504	\$ 3,735,863	\$ 177,322

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, 2005

	General	Special Revenue				Debt Service	Other Nonmajor Governmental Funds	Total
		Road Use Tax	Employee Benefits	Urban Renewal T.I.F. Area	Expendable Trust			
Receipts								
Property tax	\$ 661,272	\$ —	\$ 344,827	\$ —	\$ —	\$ 248,350	\$ —	\$ 1,254,449
T.I.F. collections	—	—	—	350,621	—	—	2,185	352,806
Other city tax	22,245	—	11,637	—	—	7,326	239,525	280,733
Licenses and permits.....	14,931	—	—	—	—	—	—	14,931
Use of money and property	45,690	—	1,302	1,202	4,095	1,465	5,381	59,135
Intergovernmental.....	38,802	324,685	—	—	63,727	—	5,000	432,214
Charges for service	808,333	—	—	—	—	—	21,874	830,207
Special assessments.....	—	—	—	—	—	—	18,818	18,818
Miscellaneous.....	65,982	—	4,829	4,000	12,151	—	38,735	125,697
Total Receipts	1,657,255	324,685	362,595	355,823	79,973	257,141	331,518	3,368,990
Disbursements								
Operating								
Public safety.....	447,140	—	125,748	—	145,503	—	33,644	752,035
Public works.....	459,340	340,925	95,021	—	25,023	—	41,099	961,408
Health and social services	2,952	—	—	—	—	—	—	2,952
Culture and recreation.....	623,604	—	126,256	—	9,116	—	43,035	802,011
Community and economic development.....	—	—	—	405,386	833	—	75,362	481,581
General government	173,265	—	25,653	—	22,016	—	2,294	223,228
Debt service.....	—	—	—	268,178	—	290,101	—	558,279
Capital projects.....	—	—	—	—	—	—	12,253	12,253
Total Disbursements	1,706,301	340,925	372,678	673,564	202,491	290,101	207,687	3,793,747
Receipts Over (Under) Disbursements.....	(49,046)	(16,240)	(10,083)	(317,741)	(122,518)	(32,960)	123,831	(424,757)
Other Financing Sources (Uses)								
Interfund loan proceeds.....	—	—	—	293,160	—	—	—	293,160
Operating transfers in.....	36,943	—	—	250,554	30,864	23,952	45,000	387,313
Operating transfers out.....	(11,864)	—	—	—	(45,000)	—	(305,671)	(362,535)
Total Other Financing Sources (Uses)	25,079	—	—	543,714	(14,136)	23,952	(260,671)	317,938
Increase (Decrease) in Cash Balances.....	(23,967)	(16,240)	(10,083)	225,973	(136,654)	(9,008)	(136,840)	(106,819)
Cash Balances - Beginning of Year.....	738,187	535,930	204,653	—	370,047	73,374	508,987	2,431,178
Cash Balances - End of Year	\$ 714,220	\$ 519,690	\$ 194,570	\$ 225,973	\$ 233,393	\$ 64,366	\$ 372,147	\$ 2,324,359
Cash Basis Fund Balances								
Reserved								
Debt service	\$ —	\$ —	\$ —	\$ —	—	\$ 64,366	\$ —	\$ 64,366
Unreserved								
General fund	714,220	—	—	—	—	—	—	714,220
Special revenue fund	—	519,690	194,570	225,973	233,393	—	254,529	1,428,155
Capital projects fund	—	—	—	—	—	—	117,618	117,618
Total Cash Basis Fund Balances	\$ 714,220	\$ 519,690	\$ 194,570	\$ 225,973	\$ 233,393	\$ 64,366	\$ 372,147	\$ 2,324,359

See accompanying notes to the financial statements.

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

Year Ended June 30, 2005

	Water Utility	Municipal Sanitary Sewer Utility Revenue	Municipal Sanitary Sewer Utility Operation and Main- tenance	Municipal Sanitary Sewer Utility Replace- ment	Other Nonmajor Proprietary Funds	Total
Operating Receipts						
Use of money and property ...	\$ 9,307	\$ 582	\$ 308	\$ 5,024	\$ 3,073	\$ 18,294
Charges for service	295,020	553,930	—	—	31,640	880,590
Miscellaneous.....	<u>17,553</u>	<u>17,052</u>	<u>—</u>	<u>—</u>	<u>11,279</u>	<u>45,884</u>
Total Operating Receipts	<u>321,880</u>	<u>571,564</u>	<u>308</u>	<u>5,024</u>	<u>45,992</u>	<u>944,768</u>
Operating Disbursements						
Business-type activities	<u>303,160</u>	<u>—</u>	<u>404,249</u>	<u>5,222</u>	<u>30,979</u>	<u>743,610</u>
Operating Receipts Over (Under) Operating Disbursements.....						
	<u>18,720</u>	<u>571,564</u>	<u>(403,941)</u>	<u>(198)</u>	<u>15,013</u>	<u>201,158</u>
Nonoperating Receipts (Disbursements)						
Interfund loan.....	(293,160)	—	—	—	—	(293,160)
Loan payment.....	126,201	—	—	—	—	126,201
Debt service.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(45,446)</u>	<u>(45,446)</u>
Total Nonoperating Disbursements.....	<u>(166,959)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(45,446)</u>	<u>(212,405)</u>
Receipts Over (Under) Disbursements.....						
	<u>(148,239)</u>	<u>571,564</u>	<u>(403,941)</u>	<u>(198)</u>	<u>(30,433)</u>	<u>(11,247)</u>
Operating Transfers						
Operating transfers in.....	—	—	425,000	80,000	170,000	675,000
Operating transfers out.....	<u>(109,664)</u>	<u>(587,318)</u>	<u>—</u>	<u>—</u>	<u>(2,796)</u>	<u>(699,778)</u>
Total Operating Transfers	<u>(109,664)</u>	<u>(587,318)</u>	<u>425,000</u>	<u>80,000</u>	<u>167,204</u>	<u>(24,778)</u>
Increase (Decrease) in Cash Balances						
	<u>(257,903)</u>	<u>(15,754)</u>	<u>21,059</u>	<u>79,802</u>	<u>136,771</u>	<u>(36,025)</u>
Cash Balances - Beginning 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 Balances - End of Year	<u>\$ 356,563</u>	<u>\$ 154,210</u>	<u>\$ 85,765</u>	<u>\$ 442,718</u>	<u>\$ 372,248</u>	<u>\$ 1,411,504</u>
Cash Basis Fund Balances						
Reserved	\$ —	\$ —	\$ —	\$ —	\$ 152,382	\$ 152,382
Unreserved.....	<u>356,563</u>	<u>154,210</u>	<u>85,765</u>	<u>442,718</u>	<u>219,866</u>	<u>1,259,122</u>
Total Cash Basis Fund Balances	<u>\$ 356,563</u>	<u>\$ 154,210</u>	<u>\$ 85,765</u>	<u>\$ 442,718</u>	<u>\$ 372,248</u>	<u>\$ 1,411,504</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 *Urban Renewal T.I.F. Area Fund* is used to account for urban renewal projects financed by tax increment financing.

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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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.

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, 2005, disbursements exceeded the amounts budgeted in the capital project function prior to the October 8, 2004 amendment.

(2) Deposits and Investments

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

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

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, 2005.

Component Unit

The Cresco Public Library Foundation investments at June 30, 2005 are shown below.

Certificates of deposit.....	\$ 123,902
Checking/savings	53,420
	<u>\$ 177,322</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
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	60,000	2,340	106,000	18,652	27,000	18,017
2011-15	—	—	164,000	35,291	156,000	71,380
2016-20	—	—	80,000	14,448	192,000	34,959
2021	—	—	18,000	774	44,000	1,892
	<u>\$ 395,000</u>	<u>\$ 41,618</u>	<u>\$ 899,000</u>	<u>\$ 213,350</u>	<u>\$ 517,000</u>	<u>\$ 209,066</u>

Year Ending June 30,	Interfund Loans		Rural Community Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
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	—	—	—	—	193,000	39,009
2011-15	—	—	—	—	320,000	106,671
2016-20	—	—	—	—	272,000	49,407
2021	—	—	—	—	62,000	2,666
Undefined due date	<u>293,160</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>293,160</u>	<u>—</u>
	<u>\$ 293,160</u>	<u>\$ —</u>	<u>\$ 23,356</u>	<u>\$ 1,270</u>	<u>\$ 2,127,516</u>	<u>\$ 465,304</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, 2005.

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, 2005, \$11,170 of principal and \$1,138 of interest was paid. The unpaid balance of the loan at June 30, 2005 was \$23,356.

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, 2005, \$126,201 of principal and \$1,737 of interest was paid, and there was no unpaid balance at June 30, 2005.

The City approved on January 17, 2005, an interfund loan in the amount of \$216,000 from the Water Utility Fund to the T.I.F. fund at a variable annual interest rate of 2.55% - 4.25%. Payments will be made from annual T.I.F. taxes collected from one development project. During the year ended June 30, 2005, no principal or interest was paid. The unpaid balance of the loan at June 30, 2005 was \$216,000.

The City approved on May 27, 2005, an interfund loan in the amount of \$77,160 from the Water Utility Fund to the T.I.F. fund at a variable annual interest rate of 2.9% - 4.4%. Payments will be made from annual T.I.F. taxes collected from one development project. During the year ended June 30, 2005, no principal or interest was paid. The unpaid balance of the loan at June 30, 2005 was \$77,160.

(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 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.9%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$70,327, \$66,934 and \$65,960, respectively, equal to the required contributions for each year.

Notes to the Financial Statements

(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.

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, 2005, primarily relating to the General Fund Type was as follows:

Type of Benefit	Amount 6-30-05
Compensatory time off	\$ 38,739
Vacation.....	100,577
Sick leave (100%).....	<u>511,382</u>
Total	<u>\$ 650,698</u>

This liability has been computed based on rates of pay as of June 30, 2005.

(6) Interfund Transfers

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

Transfer To	Transfer From	Amount
General	Capital Projects	
	Capital Improvement Sinking	\$ 265
	Proprietary	
	Water Utility	7,164
	Municipal Sanitary Sewer Utility	9,818
	Revenue	
	Yard Waste	796
	Special Revenue	
	Local Option Sales Tax	<u>18,900</u>
		<u>36,943</u>
Special Revenue	Special Revenue	
Urban Renewal T.I.F. Area	T.I.F. #1	121,836
	T.I.F. #2	<u>128,718</u>
		<u>250,554</u>
Proprietary	Proprietary	
Water Utility Repairs and Replacement	Water Utility	<u>100,000</u>

Notes to the Financial Statements

(6) Interfund Transfers

Transfer To	Transfer From	Amount
Special Revenue Expendable Trusts	General Special Revenue Local Option Sales Tax Capital Projects Capital Improvement Sinking Proprietary Water Utility Municipal Sanitary Sewer Utility Revenue Yard Waste	\$ 11,864 10,000 2,000 2,500 2,500 <u>2,000</u> <u>30,864</u>
Debt Service	Special Revenue Local Option Sales Tax	 <u>23,952</u>
Special Revenue 2005 CDBG Housing Rehabilitation	Special Revenue Expendable Trusts	 <u>45,000</u>
Proprietary Municipal Sanitary Sewer Utility Operation and Maintenance	Proprietary Municipal Sanitary Sewer Utility Revenue	 <u>425,000</u>
Proprietary Municipal Sanitary Sewer Utility Revenue Bond and Interest Sinking	Proprietary Municipal Sanitary Sewer Utility Revenue	 <u>50,000</u>
Proprietary Municipal Sanitary Sewer Utility Replacement	Proprietary Municipal Sanitary Sewer Utility Revenue	 <u>80,000</u>
Proprietary Municipal Sanitary Sewer Utility Revenue Debt Service Reserve	Proprietary Municipal Sanitary Sewer Utility Revenue	 <u>20,000</u>
Total		<u>\$ 1,062,313</u>

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$8,654 during the year ended June 30, 2005.

(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) Forgivable T.I.F. Loan

The City of Cresco made a \$28,000 forgivable loan to David and Linda Harvey to develop property in the T.I.F. project area. This amount is included as a disbursement in the community and economic development program. The amount of \$2,800 will be forgiven starting December 31, 2005 and for each of the next nine years, provided that terms of the agreement are met.

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, 2005

	Governmental Funds - Actual	Proprietary Funds - Actual	Less Funds Not Required to be Budgeted	Net	Budgeted Amounts		Final to Total Actual Over (Under) Budget
					Original	Final	
Receipts							
Property tax	\$ 1,254,449	\$ —	\$ —	\$ 1,254,449	\$ 1,211,568	\$ 1,211,568	\$ 42,881
T.I.F. collections	352,806	—	—	352,806	171,000	342,185	10,621
Other city tax	280,733	—	—	280,733	275,373	281,899	(1,166)
Licenses and permits.....	14,931	—	—	14,931	5,625	6,625	8,306
Use of money and property	59,135	18,294	1,737	75,692	90,198	90,198	(14,506)
Intergovernmental.....	432,214	—	—	432,214	364,501	587,281	(155,067)
Charges for service	830,207	880,590	—	1,710,797	1,700,118	1,706,288	4,509
Special assessments.....	18,818	—	—	18,818	2,000	17,721	1,097
Miscellaneous.....	125,697	45,884	—	171,581	143,280	172,091	(510)
Total Receipts.....	3,368,990	944,768	1,737	4,312,021	3,963,663	4,415,856	(103,835)
Disbursements							
Public safety	752,035	—	—	752,035	640,662	786,482	(34,447)
Public works	961,408	—	—	961,408	979,414	1,004,371	(42,963)
Health and social services.....	2,952	—	—	2,952	3,000	3,000	(48)
Culture and recreation.....	802,011	—	—	802,011	819,185	850,327	(48,316)
Community and economic development	481,581	—	—	481,581	42,450	634,130	(152,549)
General government.....	223,228	—	—	223,228	206,192	310,842	(87,614)
Debt service.....	558,279	—	127,938	430,341	429,269	430,344	(3)
Capital projects.....	12,253	—	—	12,253	3,000	13,025	(772)
Business-type activities	—	956,015	166,959	789,056	768,356	861,243	(72,187)
Total Disbursements.....	3,793,747	956,015	294,897	4,454,865	3,891,528	4,893,764	(438,899)
Receipts Over (Under) Disbursements.....	(424,757)	(11,247)	(293,160)	(142,844)	72,135	(477,908)	335,064
Other Financing Sources, Net	317,938	(24,778)	293,160	—	—	—	—
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(106,819)	(36,025)	—	(142,844)	72,135	(477,908)	335,064
Balances - Beginning of Year	2,431,178	1,447,529	—	3,878,707	3,506,463	3,506,463	(372,244)
Balances - End of Year.....	\$ 2,324,359	\$ 1,411,504	\$ —	\$ 3,735,863	\$ 3,578,598	\$ 3,028,555	\$ 707,308

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

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

Formal and legal budgetary control is based upon 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, three budget amendments increased budgeted disbursements by \$1,002,236. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the capital projects 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, 2005

	Special Revenue					Capital Projects				Total
	Local Option Sales Tax	T.I.F. #1	T.I.F. #2	2005 CDBG Housing Rehabil- itation	CIDC Revolving Loan	State Grants	Capital Improvement Sinking	Street, Curb and Gutter Projects	Airport Project	
Receipts										
T.I.F. collections	\$ —	\$ —	\$ 2,185	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,185
Other city tax	239,525	—	—	—	—	—	—	—	—	239,525
Use of money and property	547	442	262	29	3,438	—	414	227	22	5,381
Intergovernmental.....	—	—	—	—	—	5,000	—	—	—	5,000
Charges for service	—	—	—	—	—	—	21,874	—	—	21,874
Special assessments.....	—	—	—	—	—	—	—	18,818	—	18,818
Miscellaneous.....	990	—	46	—	37,699	—	—	—	—	38,735
Total Receipts.....	241,062	442	2,493	29	41,137	5,000	22,288	19,045	22	331,518
Disbursements										
Operating										
Public safety.....	33,644	—	—	—	—	—	—	—	—	33,644
Public works.....	41,099	—	—	—	—	—	—	—	—	41,099
Culture and recreation.....	43,035	—	—	—	—	—	—	—	—	43,035
Community and economic development..	20,000	587	29,576	88	20,111	5,000	—	—	—	75,362
General government	2,294	—	—	—	—	—	—	—	—	2,294
Capital projects.....	—	—	—	—	—	—	3,990	5,921	2,342	12,253
Total Disbursements.....	140,072	587	29,576	88	20,111	5,000	3,990	5,921	2,342	207,687
Receipts Over (Under) Disbursements.....	100,990	(145)	(27,083)	(59)	21,026	—	18,298	13,124	(2,320)	123,831
Other Financing Sources (Uses)										
Operating transfers in.....	—	—	—	45,000	—	—	—	—	—	45,000
Operating transfers out.....	(52,852)	(128,718)	(121,836)	—	—	—	(2,265)	—	—	(305,671)
Total Other Financing Sources (Uses)	(52,852)	(128,718)	(121,836)	45,000	—	—	(2,265)	—	—	(260,671)
Increase (Decrease) in Cash Balances.....	48,138	(128,863)	(148,919)	44,941	21,026	—	16,033	13,124	(2,320)	(136,840)
Cash Balances - Beginning of Year.....	123,511	128,863	148,919	—	16,913	—	34,735	48,465	7,581	508,987
Cash Balances - End of Year.....	\$ 171,649	\$ —	\$ —	\$ 44,941	\$ 37,939	\$ —	\$ 50,768	\$ 61,589	\$ 5,261	\$ 372,147
Cash Basis Fund Balances										
Unreserved										
Special revenue funds.....	\$ 171,649	\$ —	\$ —	\$ 44,941	\$ 37,939	\$ —	\$ —	\$ —	\$ —	\$ 254,529
Capital projects funds.....	—	—	—	—	—	—	50,768	61,589	5,261	117,618
Total Cash Basis Fund Balances.....	\$ 171,649	\$ —	\$ —	\$ 44,941	\$ 37,939	\$ —	\$ 50,768	\$ 61,589	\$ 5,261	\$ 372,147

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

Year Ended June 30, 2005

	Municipal Sanitary Sewer Utility Revenue Bond and Interest Sinking	Municipal Sanitary Sewer Utility Revenue Debt Service Reserve	Water Utility Repairs and Replacement	Yard Waste and Recycling T.I.F. #2	Water Meter Deposits	Total
Operating Receipts						
Use of money and property.....	\$ 691	\$ 1,125	\$ 64	\$ 611	\$ 581	\$ 3,072
Charges for service.....	—	—	—	31,640	—	31,640
Miscellaneous.....	—	—	—	—	11,280	11,280
Total Operating Receipts....	<u>691</u>	<u>1,125</u>	<u>64</u>	<u>32,251</u>	<u>11,861</u>	<u>45,992</u>
Operating Disbursements						
Business-type activities.....	—	—	—	<u>20,439</u>	<u>10,540</u>	<u>30,979</u>
Operating Receipts Over Operating Disbursements ..	691	1,125	64	11,812	1,321	15,013
Nonoperating Disbursements						
Debt service.....	<u>45,446</u>	—	—	—	—	<u>45,446</u>
Receipts Over (Under) Disbursements.....	<u>(44,755)</u>	<u>1,125</u>	<u>64</u>	<u>11,812</u>	<u>1,321</u>	<u>(30,433)</u>
Other Financing Sources (Uses)						
Operating transfers in.....	50,000	20,000	100,000	—	—	170,000
Operating transfers out.....	—	—	—	(2,796)	—	(2,796)
Total Other Financing Sources (Uses).....	<u>50,000</u>	<u>20,000</u>	<u>100,000</u>	<u>(2,796)</u>	<u>—</u>	<u>167,204</u>
Increase in Cash Balances...	5,245	21,125	100,064	9,016	1,321	136,771
Cash Balance - Beginning of Year.....	<u>56,541</u>	<u>69,471</u>	—	<u>62,790</u>	<u>46,675</u>	<u>235,477</u>
Cash Balance - End of Year .	<u>\$ 61,786</u>	<u>\$ 90,596</u>	<u>\$ 100,064</u>	<u>\$ 71,806</u>	<u>\$ 47,996</u>	<u>\$ 372,248</u>
Cash Basis Fund Balances						
Reserved.....	\$ 61,786	\$ 90,596	\$ —	\$ —	\$ —	\$ 152,382
Unreserved.....	—	—	100,064	71,806	47,996	219,866
Total Cash Basis Fund Balances.....	<u>\$ 61,786</u>	<u>\$ 90,596</u>	<u>\$ 100,064</u>	<u>\$ 71,806</u>	<u>\$ 47,996</u>	<u>\$ 372,248</u>

Schedule of Indebtedness

Year Ended June 30, 2005

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 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 Loans			
T.I.F. #2	\$ 145,000	12-2-02	3.34%
T.I.F.	216,000	1-17-05	2.55 - 4.25
T.I.F.	77,160	5-27-05	2.90 - 4.40

See accompanying notes to the financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 130,000	\$ —	\$ 40,000	\$ 90,000	\$ 8,613	\$ —
45,000	—	20,000	25,000	10,188	—
<u>285,000</u>	<u>—</u>	<u>5,000</u>	<u>280,000</u>	<u>2,140</u>	<u>—</u>
<u>\$ 460,000</u>	<u>\$ —</u>	<u>\$ 65,000</u>	<u>\$ 395,000</u>	<u>\$ 20,941</u>	<u>\$ —</u>
\$ 130,000	\$ —	\$ 130,000	\$ —	\$ 6,370	\$ —
160,000	—	25,000	135,000	8,560	—
150,000	—	100,000	50,000	11,400	—
500,000	—	—	500,000	27,990	—
<u>223,000</u>	<u>—</u>	<u>9,000</u>	<u>214,000</u>	<u>9,589</u>	<u>—</u>
<u>\$ 1,163,000</u>	<u>\$ —</u>	<u>\$ 264,000</u>	<u>\$ 899,000</u>	<u>\$ 63,909</u>	<u>\$ —</u>
<u>\$ 539,000</u>	<u>\$ —</u>	<u>\$ 22,000</u>	<u>\$ 517,000</u>	<u>\$ 23,177</u>	<u>\$ —</u>
<u>\$ 34,526</u>	<u>\$ —</u>	<u>\$ 11,170</u>	<u>\$ 23,356</u>	<u>\$ 1,138</u>	<u>\$ —</u>
\$ 126,201	\$ —	\$ 126,201	\$ —	\$ 1,737	\$ —
—	216,000	—	216,000	—	—
<u>—</u>	<u>77,160</u>	<u>—</u>	<u>77,160</u>	<u>—</u>	<u>—</u>
<u>\$ 126,201</u>	<u>\$ 293,160</u>	<u>\$ 126,201</u>	<u>\$ 293,160</u>	<u>\$ 1,737</u>	<u>\$ —</u>

Schedule of Bond and Note Maturities

At June 30, 2005

Year Ending June 30,	General Obligation Bonds						Total
	Corporate Purpose						
	Issued May 1, 1991		Issued October 1, 1993		Issued December 1, 2001		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
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		\$ 90,000		\$ 25,000		\$ 280,000	\$ 395,000

Year Ending June 30,	General Obligation Notes								Total
	Capital Loan Notes								
	Series 2000A		Series 2000B		Series 2001A		Series 2001B		
	Issued June 1, 2000	Issued June 1, 2000	Issued August 1, 2001	Issued August 1, 2001	Interest Rates	Amount	Interest Rates	Amount	
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		\$ 135,000		\$ 50,000		\$ 500,000		\$ 214,000	\$ 899,000

Schedule of Bond and Note Maturities

At June 30, 2005

Year Ending June 30,	<u>Sewer Revenue</u>		<u>Other Indebtedness</u>					
	<u>Capital Loan Notes</u>		<u>Interfund Loan</u>		<u>Interfund Loan</u>		<u>Rural</u>	
	<u>Interest</u>	<u>Amount</u>	<u>Interest</u>	<u>Amount</u>	<u>Interest</u>	<u>Amount</u>	<u>Interest</u>	<u>Amount</u>
	<u>Issued Aug. 1, 2001</u>	<u>Issued Jan. 17, 2005</u>	<u>Issued May 27, 2005</u>	<u>Issued 1990-1991</u>				
	Rates		Rates		Rates		Rates	
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	44,000		—		—		—
Undefined due date		—		216,000*		77,160*		—
Total		\$ 517,000		\$ 216,000		\$ 77,160		\$ 23,356

*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, 2002 Through 2005

	2005	2004	2003	2002
Receipts				
Property tax	\$ 1,254,449	\$ 1,309,772	\$ 1,294,007	\$ 1,131,266
T.I.F. collections	352,806	214,898	144,837	206,244
Other city tax	280,733	277,349	266,893	255,796
Licenses and permits.....	14,931	13,927	12,086	13,182
Use of money and property	59,135	58,211	56,024	63,750
Intergovernmental.....	432,214	466,198	539,194	745,605
Charges for service	830,207	814,309	812,344	771,242
Special assessments.....	18,818	34,925	4,563	4,780
Miscellaneous.....	<u>125,697</u>	<u>135,551</u>	<u>97,131</u>	<u>86,243</u>
Total Receipts	<u>\$ 3,368,990</u>	<u>\$ 3,325,140</u>	<u>\$ 3,227,079</u>	<u>\$ 3,278,108</u>
Disbursements				
Operating				
Public safety.....	\$ 752,035	\$ 547,742	\$ 536,615	\$ 920,078
Public works.....	961,408	874,340	826,386	800,133
Health and social services	2,952	2,952	2,835	3,335
Culture and recreation	802,011	759,001	803,698	685,898
Community and economic development.....	481,581	55,638	261,792	704,823
General government	223,228	213,015	186,036	172,209
Debt service.....	558,279	425,825	499,198	526,011
Capital projects.....	<u>12,253</u>	<u>207,339</u>	<u>49,353</u>	<u>912,206</u>
Total Disbursements	<u>\$ 3,793,747</u>	<u>\$ 3,085,852</u>	<u>\$ 3,165,913</u>	<u>\$ 4,724,693</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, 2005, and have issued our report thereon dated August 4, 2005. 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 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, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved, except comment 05-C-5 which is repeated below.

05-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, 2005.

05-C-2 Certified Budget - Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the capital project function prior to the budget being amended on October 8, 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.

05-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.

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

05-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	\$ 1,793
James Daly, Council Member, Owner of Daly Plumbing & Heating	Supplies and repairs	415
Rhonda Hughes, Mayor Part owner of Haines Drug Store	Supplies	6
William Balk, Fire Chief (retired 4/05), Owner Louis Balk Lime	Backhoe rental	5,333
Jim Holstrom, Volunteer Fireman, Owner of Holstrom Jewelers, Inc.	Engraving	111
Wayne Kerian, Volunteer Fireman, Part-owner of Culligan Water	Water softener	996

In accordance with Chapter 362.5 of the Code of Iowa, the transactions with Council Member Loveless and Fire Chief Balk 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 expenses (advertising, supply costs and equipment rental). 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.

05-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.

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

05-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.

05-C-9 Financial Condition - There were no funds that had a deficit balance at June 30, 2005.

05-C-10 Iowa Unclaimed Property Reporting Law - The law requires that entities report to the state payroll checks outstanding more than one year and other checks \$50 or more that have been outstanding over three years. At June 30, 2005, the City had two payroll checks and one other check that should have been remitted to the State.

Auditors Recommendation - The City should ensure proper reporting of outstanding checks to comply with Iowa unclaimed property reporting law.

City's Response - We will properly follow Iowa escheat laws.

Auditor's Conclusion - Response accepted.

05-C-11 T.I.F Debt Certificate Reporting Requirements - The City's T.I.F. Debt Certificate filed with the County on November 22, 2004 had two errors. The first error was the failure to reduce eligible expenditures by cash on hand as of the report date. The second error was a typing error on the report, with the supporting schedule having the correct amount.

Auditors Recommendation - The Debt Certificate report should properly net expenditures with cash on hand. In addition, City staff should proofread the report prior to filing.

City's Response - We will properly complete and check the report prior to filing.

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 05-IC-1.

05-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.

In addition to the above, the following additional item which is not a reportable condition, was noted during our audit which we wish to bring to management's attention.

The City should use resolutions for better documentation of interfund loans. In the current year, the City approved interfund loans through approval of transfers in the budget amendment process. We recommend that the City use their previous process of the City approving these loans through the adoption of a resolution which documents the terms of the interfund fund.

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 Cresco, Iowa, and other parties to whom the City may report, including other grantor agencies. This report is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
August 4, 2005