

CITY OF CRESTON, IOWA

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

Year Ended June 30, 2005

CITY OF CRESTON, IOWA
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CITY OF CRESTON, IOWA
CITY OFFICIALS
June 30, 2005

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------------|--------------------|---------------------|
| 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, 2006 |
| Arnold O. Kenyon, III | City Attorney | January 1, 2006 |

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, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Creston, 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 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, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Creston, Iowa, as of June 30, 2005, 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

In accordance with Government Auditing Standards, we have also issued our report dated August 5, 2005, 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 basic 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, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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, Smidgrasso, Mickelson + Co., P.C.

August 5, 2005

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

The City implemented new reporting standards beginning with the previous fiscal year, with significant changes in content and structure, which will make comparisons with financial information from previous fiscal years more meaningful and will go further in explaining the City's financial position and results of operations.

Financial Highlights

Government Activities total revenues increased by \$343,686 from the previous fiscal year. Charges for services, Intergovernmental Revenues, Other City Tax, Licenses and Permits, and Other General Receipts all increased.

Government Activities total expenditures increased by \$326,504. The areas of Public Works, Culture and Recreation, Community and Economic Development, and Capital Projects increased, while all other program areas showed a decrease in expenditures. Public Works increased by \$225,017, Community and Economic Development increased by \$3,196, while Capital Projects increased by \$294,876.

The City's total cash basis net assets increased by \$327,879. Of this amount, \$62,326 of the gain was due to the General Fund. The Employee Benefits Fund had a substantial gain of \$394,907 due to low health insurance claims, and the Debt Service Fund showed a slight gain of \$15,315. The Road Use Fund showed a decline of \$66,795 and other non-Governmental Funds declined by \$77,874. The Road Use Fund will receive some financial assistance in future years, as will the Sewer Fund, due to the passage of the Local Option Sales Tax which will enable the City to finance future street and sewer repair projects. Local Option Sales Taxes will be collected beginning on July 1, 2005, and then for the next ten 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 \$327,879. 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>2005</u> | <u>2004</u> |
|---|------------------------|------------------------|
| Receipts and transfers: | | |
| Program receipts: | | |
| Charges for services and sales | \$ 636,413 | \$ 529,473 |
| Operating grants, contributions and restricted interest | 1,701,605 | 1,402,099 |
| General receipts | | |
| Property tax | 2,406,504 | 2,484,137 |
| Tax incremental financing collections | 125,512 | 164,306 |
| Other city tax | 90,754 | 80,447 |
| Licenses and permits | 58,863 | 46,038 |
| Use of money and property | 67,787 | 92,390 |
| Bond and short term debt proceeds | --- | 50,000 |
| Other general receipts | 256,083 | 251,883 |
| Transfers-in | <u>737,131</u> | <u>636,193</u> |
| Total receipts and transfers | <u>\$6,080,652</u> | <u>\$5,736,966</u> |
| Disbursements: | | |
| Public safety | \$1,284,193 | \$1,357,093 |
| Public works | 1,376,244 | 1,151,227 |
| Health and social services | | |
| Culture and recreation | 440,350 | 364,896 |
| Community and economic development | 29,966 | 26,770 |
| General government | 817,126 | 1,058,487 |
| Debt service | 1,022,485 | 1,083,828 |
| Capital projects | 397,048 | 102,172 |
| Transfers-out | <u>385,361</u> | <u>282,066</u> |
| Total disbursements and transfers | <u>\$5,752,773</u> | <u>\$5,426,539</u> |
| Increase in cash balance | \$ 327,879 | \$ 310,427 |
| Cash balance, beginning of fiscal year | <u>1,793,788</u> | <u>1,483,361</u> |
| Cash balance, end of fiscal year | <u>\$2,121,667</u> | <u>\$1,793,788</u> |

The City's total receipts for governmental activities increased by 6% or \$343,686. The total cost of all programs and services increased by approximately 6% or \$326,504 with no new programs added this year. The increase in receipts was due primarily to intergovernmental revenues received while overall all other revenue categories increased slightly. The increase in expenditures was due primarily to a Capital Construction project completed on North Cherry Street.

The City decreased the property tax rates in 2005 by approximately 2.6 percent. The City was able to do this by drawing down fund balances and making efforts to reduce expenditures in such areas as debt service and employee benefits. Property tax receipts are expected to decrease in the next fiscal year due to a lower tax rate and the allocation 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 \$5,753,043 compared to \$5,426,539 last year. 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 \$869,117, a gain of \$62,326 over the previous fiscal year.

| | Business Type Activities | |
|--|--------------------------|-------------------|
| | <u>2005</u> | <u>2004</u> |
| Receipts | | |
| Program receipts: | | |
| Charges for services and sales | \$ 964,012 | \$ 985,663 |
| Uses of money and property | 1,551 | 486 |
| Transfers in | <u>---</u> | <u>8,000</u> |
| Total revenues | <u>\$ 965,563</u> | <u>\$ 994,149</u> |
| Disbursements and transfers: | | |
| Personal services | \$ 451,623 | \$ 286,312 |
| Services and commodities | 138,278 | 228,203 |
| Capital outlay | 28,579 | 24,693 |
| Transfers out | <u>351,770</u> | <u>362,128</u> |
| Total disbursements and transfers | <u>\$ 970,250</u> | <u>\$ 901,336</u> |
| Increase (decrease) in cash balance | \$ (4,687) | \$ 92,813 |
| Cash balance, beginning of fiscal year | <u>531,429</u> | <u>438,616</u> |
| Cash balance, end of fiscal year | <u>\$ 526,742</u> | <u>\$ 531,429</u> |

Total business type activity receipts for the fiscal year were \$965,563 compared to \$994,149 last fiscal year. The revenue decrease was due primarily to a decrease in water purchased by a major industrial customer in the food processing business. It is difficult to estimate the future water purchases for this customer and therefore the overall sewer revenues may not recover to the fiscal year 2004 levels.

The cash balance decreased by approximately \$4,687 due in part to the reduced revenues received and additional administrative personnel costs transferred to the Wastewater Department from the General Fund.

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 \$869,117, an increase of \$62,326. 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 and the allocation of some personnel costs to the Sewer Fund. City Departments also were advised to spend funds carefully and did so.

The Road Use Tax Fund cash balance decreased by \$66,795 to \$37,234, during the fiscal year. The decrease was attributable to several curb and gutter projects initiated during the summer construction season and for which the funding will arrive in the Fall of 2005 in the form of Local Option Sales Taxes.

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 \$394,907 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 \$476,085 in property taxes and transferred \$546,400 from other funds to make payments for these obligations. The fund showed a gain of \$15,315 for the fiscal year just completed and has a fund balance of \$115,016. This fund balance is being held in reserve to make the first of three annual no-interest payments to the Iowa Department of Transportation for work completed on the Highway 25 project in 2005.

Proprietary Funds

The cash balance of the Sewer Fund increased by \$4,687 due primarily to a loss in revenues from a large industrial user and the transfer of some administrative costs from the General Fund to the Sewer Fund. 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 17, 2005 and resulted in an increase in operating disbursements related to a cost overrun of approximately \$509,679 on various departmental budgets due primarily to a street resurfacing project on North Cherry Street, some pass through grant expenditures, overtime wages, and maintenance and utility charges. The amendment also included a project increase in revenues of \$453,291.

Even with this amendment, the City exceeded the budget for the Public Works and Business Type Activities for the year ended June 30, 2005. This amendment made during the 2005 fiscal year should have no impact on the 2006 fiscal year budget.

Debt Administration

At year-end, the City had approximately \$5,489,528 in bonds and other long-term debt compared to \$6,526,617 last year as shown below.

Outstanding Debt at Year End

| | <u>2005</u> | <u>2004</u> |
|--|--------------------|--------------------|
| General obligation bonds | \$2,015,000 | \$2,120,000 |
| Capital loan notes – refunding notes | 585,000 | 945,000 |
| Street extension loan | 10,000 | 20,000 |
| Equipment loan | 61,480 | 121,146 |
| State revolving fund wastewater bonds | 2,778,000 | 2,956,000 |
| Fire truck loan | 40,000 | 50,000 |
| Iowa Department of Transportation – no interest loan | <u>314,410</u> | <u>314,410</u> |
| Total | <u>\$5,803,890</u> | <u>\$6,526,556</u> |

Debt decreased as a result of the steady repayment of existing debt obligations. The City did create an additional debt amount of \$93,000 for the purchase of materials to construct a new Park Maintenance Building, but this loan was initiated after June 30, 2005 and is not reflected in the total debt amounts shown above. The Park Maintenance Building Loan will be repaid by use of Hotel and Motel Tax and will not cause an increased in future property tax levies. The City Debt Service Levy will decrease from a tax rate of \$3.37527 to \$2.93312 for the fiscal year ending June 30, 2006. The City will initiate additional debt with the proposed reconstruction of Highway 34 by the State Department of Transportation in 2007. The City will be responsible for the curb and gutter, water intakes, and storm sewer reconstruction, while the highway will be the responsibility of the Iowa Department of Transportation. At this time, it is difficult to estimate the amount of debt that will be required as this project is still in its planning stages. The total cost of the project will be paid for using Tax Incremental Financing Debt, A CDBG loan, and a bond issue to be repaid using Local Option Sales Taxes. This project will have no effect on the City property tax rates in future years.

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 debt of \$2,015,000 is well below the City's \$11,868,720 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.

In addition, return on investments and the costs of employee benefits are primary concerns in setting a budget.

These factors all contributed when adopting the fiscal year 2006 budget. Amounts available for appropriations in the budget are \$13,802,324. 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 80.326 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 2005 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, 2005

Exhibit A

| FUNCTIONS/PROGRAMS: | <u>Disbursements</u> | PROGRAM RECEIPTS | | |
|--|----------------------|---------------------------------|--|---|
| | | <u>Charges For Services</u> | <u>Operating Grants Contributions, and Restricted Interest</u> | <u>Capital Grants Contributions and Restricted Interest</u> |
| Governmental activities: | | | | |
| Public safety | \$ 1,284,193 | \$ 189,648 | \$ 161,737 | \$ - |
| Public works | 1,376,244 | 552,040 | 639,022 | 93,743 |
| Health and social services | - | - | - | - |
| Culture and recreation | 440,350 | 137,560 | 58,456 | - |
| Community/economic development | 29,966 | - | - | - |
| General government | 817,126 | 346,364 | 181,485 | - |
| Debt service | 1,022,485 | - | - | - |
| Capital projects | 397,048 | - | - | 226,197 |
| Total governmental activities | <u>\$ 5,367,412</u> | <u>\$ 1,225,612</u> | <u>\$ 1,040,700</u> | <u>\$ 319,940</u> |
| Business type activities: | | | | |
| Sewer | \$ 618,480 | \$ 965,563 | \$ - | \$ - |
| Total business type activities | <u>\$ 618,480</u> | <u>\$ 965,563</u> | <u>\$ -</u> | <u>\$ -</u> |
| TOTAL PRIMARY GOVERNMENT | <u>\$ 5,985,892</u> | <u>\$ 2,191,175</u> | <u>\$ 1,040,700</u> | <u>\$ 319,940</u> |
| COMPONENT UNIT: | | | | |
| Water Works | <u>\$ 3,925,227</u> | <u>\$ 3,221,750</u> | <u>\$ -</u> | <u>\$ 568,119</u> |
| 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 |
|----------------------------|--------------------------------|-----------------------|-------------------------------------|
| \$ (932,808) | \$ - | \$ (932,808) | \$ - |
| (91,439) | - | (91,439) | - |
| - | - | - | - |
| (244,334) | - | (244,334) | - |
| (29,966) | - | (29,966) | - |
| (289,277) | - | (289,277) | - |
| (1,022,485) | - | (1,022,485) | - |
| (170,851) | - | (170,851) | - |
| <u>\$ (2,781,160)</u> | <u>\$ -</u> | <u>\$ (2,781,160)</u> | <u>\$ -</u> |
| | | | |
| \$ - | \$ 347,083 | \$ 347,083 | \$ - |
| \$ - | \$ 347,083 | \$ 347,083 | \$ - |
| <u>\$ (2,781,160)</u> | <u>\$ 347,083</u> | <u>\$ (2,434,077)</u> | <u>\$ -</u> |
| | | | <u>\$ (135,358)</u> |
| | | | |
| \$ 1,931,187 | \$ - | \$ 1,931,187 | \$ - |
| 125,512 | - | 125,512 | - |
| 476,085 | - | 476,085 | - |
| 90,754 | - | 90,754 | - |
| 23,375 | - | 23,375 | - |
| 40,220 | - | 40,220 | 80,925 |
| - | - | - | - |
| 63,900 | - | 63,900 | 121,664 |
| 6,236 | - | 6,236 | - |
| 351,770 | (351,770) | - | - |
| <u>\$ 3,109,039</u> | <u>\$ (351,770)</u> | <u>\$ 2,757,269</u> | <u>\$ 202,589</u> |
| \$ 327,879 | \$ (4,687) | \$ 323,192 | \$ 67,231 |
| 1,793,788 | 531,429 | 2,325,217 | 3,547,044 |
| <u>\$ 2,121,667</u> | <u>\$ 526,742</u> | <u>\$ 2,648,409</u> | <u>\$ 3,614,275</u> |
| | | | |
| \$ 37,234 | \$ - | \$ 37,234 | |
| 648,052 | - | 648,052 | |
| 115,016 | - | 115,016 | |
| 452,248 | 473,725 | 925,973 | |
| 869,117 | 53,017 | 922,134 | |
| <u>\$ 2,121,667</u> | <u>\$ 526,742</u> | <u>\$ 2,648,409</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, 2005

Exhibit B

| | | SPECIAL REVENUE | |
|--|--------------|--------------------|----------------------|
| | General | Road Use Tax | Employee Benefits |
| RECEIPTS: | | | |
| Property taxes | \$ 1,305,834 | \$ - | \$ 415,246 |
| Tax increment financing collections | - | - | - |
| Other city taxes | 90,754 | - | - |
| Licenses and permits | 58,863 | - | - |
| Use of money and property | 66,141 | - | - |
| Intergovernmental | 603,117 | 636,442 | 235,849 |
| Charges for service | 628,784 | 7,629 | - |
| Special assessments | 768 | - | - |
| Miscellaneous | 81,848 | 6,959 | 86,344 |
| Total receipts | \$ 2,836,109 | \$ 651,030 | \$ 737,439 |
| DISBURSEMENTS: | | | |
| Operating: | | | |
| Public safety | \$ 1,132,635 | \$ - | \$ - |
| Public works | 637,342 | 738,902 | - |
| Health and social services | - | - | - |
| Culture and recreation | 403,917 | - | - |
| Community/economic development | 29,966 | - | - |
| General government | 481,995 | - | 335,131 |
| Debt service | - | - | - |
| Capital projects | - | - | - |
| Total disbursements | \$ 2,685,855 | \$ 738,902 | \$ 335,131 |
| EXCESS OF RECEIPTS OVER DISBURSEMENTS | \$ 150,254 | \$ (87,872) | \$ 402,308 |
| OTHER FINANCING SOURCES (USES): | | | |
| Short term note proceeds | \$ - | \$ - | \$ - |
| Sale of capital assets | - | - | - |
| Operating transfers in | 36,831 | 21,077 | - |
| Operating transfers out | (124,759) | - | (7,401) |
| TOTAL OTHER FINANCING SOURCES (USES) | \$ (87,928) | \$ 21,077 | \$ (7,401) |
| NET CHANGE IN CASH BALANCES | \$ 62,326 | \$ (66,795) | \$ 394,907 |
| CASH BALANCES, BEGINNING OF YEAR | 806,791 | 104,029 | 253,145 |
| CASH BALANCES, END OF YEAR | \$ 869,117 | \$ 37,234 | \$ 648,052 |
| CASH BASIS FUND BALANCES: | | | |
| Reserved: | | | |
| Debt service | \$ - | \$ - | \$ - |
| Unreserved: | | | |
| General fund | 869,117 | - | - |
| Special revenue funds | - | 37,234 | 648,052 |
| Capital projects fund | - | - | - |
| Permanent fund | - | - | - |
| TOTAL CASH BASIS FUND BALANCES | \$ 869,117 | \$ 37,234 | \$ 648,052 |

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

| Debt Service | Other Nonmajor Governmental Funds | Total |
|---------------------|--|---------------------|
| \$ 476,085 | \$ 209,339 | \$ 2,406,504 |
| - | 125,512 | 125,512 |
| - | - | 90,754 |
| - | - | 58,863 |
| - | 1,646 | 67,787 |
| - | 226,197 | 1,701,605 |
| - | - | 636,413 |
| - | - | 768 |
| - | 80,164 | 255,315 |
| <u>\$ 476,085</u> | <u>\$ 642,858</u> | <u>\$ 5,343,521</u> |
| | | |
| \$ - | \$ 151,558 | \$ 1,284,193 |
| - | - | 1,376,244 |
| - | - | - |
| - | 36,433 | 440,350 |
| - | - | 29,966 |
| - | - | 817,126 |
| 1,022,485 | - | 1,022,485 |
| - | 397,048 | 397,048 |
| <u>\$ 1,022,485</u> | <u>\$ 585,039</u> | <u>\$ 5,367,412</u> |
| | | |
| <u>\$ (546,400)</u> | <u>\$ 57,819</u> | <u>\$ (23,891)</u> |
| | | |
| \$ - | \$ - | \$ - |
| - | - | - |
| 561,715 | 117,508 | 737,131 |
| - | (253,201) | (385,361) |
| <u>\$ 561,715</u> | <u>\$ (135,693)</u> | <u>\$ 351,770</u> |
| | | |
| \$ 15,315 | \$ (77,874) | \$ 327,879 |
| 99,701 | 530,122 | 1,793,788 |
| <u>\$ 115,016</u> | <u>\$ 452,248</u> | <u>\$ 2,121,667</u> |
| | | |
| \$ 115,016 | \$ - | \$ 115,016 |
| - | - | 869,117 |
| - | 240,757 | 926,043 |
| - | 1,653 | 1,653 |
| - | 209,838 | 209,838 |
| <u>\$ 115,016</u> | <u>\$ 452,248</u> | <u>\$ 2,121,667</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, 2005

| | Exhibit C <u>Enterprise Fund Sewer</u> |
|---|---|
| OPERATING RECEIPTS: | |
| Charge for service | \$ 964,012 |
| Total operating receipts | <u>\$ 964,012</u> |
| OPERATING DISBURSEMENTS: | |
| Business type activities | \$ 618,480 |
| Total operating disbursements | <u>\$ 618,480</u> |
| EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS | <u>\$ 345,532</u> |
| NON-OPERATING RECEIPTS (DISBURSEMENTS): | |
| Interest on investments | \$ - |
| Miscellaneous | 1,551 |
| Debt service | - |
| Total non-operating receipts (disbursements) | <u>\$ 1,551</u> |
| EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS | <u>\$ 347,083</u> |
| OTHER FINANCING SOURCES (USES): | |
| Operating transfers in | \$ - |
| Operating transfers out | <u>(351,770)</u> |
| Total other financing sources (uses) | <u>\$ (351,770)</u> |
| NET CHANGE IN CASH BALANCES | \$ (4,687) |
| CASH BALANCES, BEGINNING OF YEAR | <u>531,429</u> |
| CASH BALANCES, END OF YEAR | <u><u>\$ 526,742</u></u> |
| CASH BASIS FUND BALANCES: | |
| Reserved for debt service | \$ - |
| Reserved for capital replacement | 434,852 |
| Reserved for storm water | 38,873 |
| Unreserved | <u>53,017</u> |
| Total cash basis fund balances | <u><u>\$ 526,742</u></u> |

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

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

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, 2005

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, 2005

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, 2005

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, 2005, disbursements exceeded the amounts budgeted in the community and economic development function prior to amendment and in the public works and business type activities functions after amendments.

Note 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 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, 2005, 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, 2005

Note 3. Bonds Payable and Other Debt (continued)

| Year Ending June 30, | Principal | | | |
|-------------------------|--------------------------------|--|--------------------|---------------------|
| | General Obligation Bonds | General Obligation Capital Loan Notes | Other Debt | Total |
| 2006 | \$ 110,000 | \$ 300,000 | \$ 370,283 | \$ 780,283 |
| 2007 | 110,000 | 140,000 | 307,803 | 557,803 |
| 2008 | 115,000 | 145,000 | 315,804 | 575,804 |
| 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>\$2,015,000</u> | <u>\$ 585,000</u> | <u>\$3,203,890</u> | <u>\$ 5,803,890</u> |

| Year Ending June 30, | Interest | | | |
|-------------------------|--------------------------------|--|-------------------|--------------------|
| | General Obligation Bonds | General Obligation Capital Loan Notes | Other Debt | Total |
| 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>\$ 802,092</u> | <u>\$ 26,795</u> | <u>\$ 868,449</u> | <u>\$1,697,336</u> |

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

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, 2005 is \$494,000. 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, 2005, is \$1,673,000. 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, 2005

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, 2005, is \$611,000. 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, 2005, is \$10,000.

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, 2005 is \$61,480.

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, 2005 is \$40,000.

On March 11, 2003, the City entered into an agreement with the Iowa Department of Transportation to finance the City's portion of a road reconstruction project. The City's portion is \$314,410 and is to be paid back to the Department of Transportation in three annual installments with no interest charged. The first payment is to be made when billed by the Department of Transportation upon final completion of the project. The first payment is expected to be due in fiscal year ended June 30, 2006.

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

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 4. Pension and Retirement Benefit (continued)

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.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 24.92% of earnable compensation. Contribution requirements are established by State statute. The City's contribution to the Plan for the years ended June 30, 2005, 2004, and 2003 was \$151,555, \$126,394, and \$114,280 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 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 8.907%, 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 year ended June 30, 2005, 2004, and 2003 was \$49,888, \$51,894, and \$53,704 respectively, equal to the required contribution for each year.

CITY OF CRESTON, IOWA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005

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, 2005, primarily relating to the General Fund, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|-------------------|
| Vacation | \$ 148,779 |
| Sick leave | <u>429,785</u> |
| Total | <u>\$ 578,564</u> |

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

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 \$940,820 for sewer rental and \$469,922 for garbage collections from the Water Works for the year ended June 30, 2005. The City paid the Water Works \$7,227 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, 2005, the Water Works reimbursed the City \$37,310.

As of June 30, 2005, the Water Works owes the following to the City of Creston:

| | |
|---------------------|-------------------|
| Sewer rental | \$ 132,849 |
| Garbage collections | <u>57,188</u> |
| | <u>\$ 190,037</u> |

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 6. Related Party Transactions (continued)

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 \$3,500 during the year ended June 30, 2005. This agreement was terminated in February 2005.

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, 2005, the City was reimbursed \$235,849 from the Water Works for claims and premiums paid on behalf of the Water Works employees.

The City had no business transactions between the City and City officials during the year ended June 30, 2005.

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, 2005.

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, 2006, for \$30,000. 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, 2005

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).

Note 10. Interfund Transfers

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

| <u>Transfer to</u> | <u>Transfer From</u> | <u>Amount</u> |
|--------------------|----------------------|------------------|
| General | Special Revenue: | |
| | Emergency | \$ 36,681 |
| | Cemetery betterment | <u>150</u> |
| | | <u>\$ 36,831</u> |

CITY OF CRESTON, IOWA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005

Note 10. Interfund Transfers (continued)

| <u>Transfer to</u> | <u>Transfer From</u> | <u>Amount</u> |
|--------------------------------|--------------------------------|------------------|
| Debt service | General | \$103,642 |
| | Special revenue: | |
| | Urban renewal tax increment | 139,602 |
| | Fire and police retirement | 2,961 |
| | Employee benefits | 7,401 |
| | Enterprise: | |
| | Sewer | <u>308,109</u> |
| | | <u>\$561,715</u> |
| Capital projects | Special Revenue: | |
| | Urban renewal tax increment | \$ 73,807 |
| | Enterprise: | |
| | Sewer | <u>43,101</u> |
| | | <u>\$116,908</u> |
| Special revenue: Skate park | General | <u>\$ 600</u> |
| Road use | General | \$ 20,517 |
| | Enterprise: | |
| | Sewer | <u>560</u> |
| | | <u>\$ 21,077</u> |
| Total | | <u>\$737,131</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 regarding the previous site for construction of a new water tower. It is currently difficult to determine the nature and extent of the claims along with any damages or expenses that may come from this litigation. The City intends to defend vigorously, with all costs for defense and any damage award provided by insurance.

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 12. Subsequent Events

In July 2005, the City approved the financing for the construction of a new park maintenance building in the amount of \$93,000 for a period of five years at a local financial institution with an interest rate of 3.65%.

In August 2005, the City approved the issuance of \$1,720,000 general obligation refinancing capital loan notes series 2005 for the refinancing of outstanding debt to reduce the interest rates being paid on the current debt.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CRESTON, IOWA
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN BALANCES - ACTUAL TO BUDGET (CASH BASIS) -
 ALL GOVERNMENTAL AND PROPRIETARY FUNDS
 Year Ended June 30, 2005

| | Governmental Funds Actual | Proprietary Funds Actual | Less Funds Not Required To Be Budgeted |
|---|---------------------------------|--------------------------------|---|
| RECEIPTS: | | | |
| Property tax | \$ 2,406,504 | \$ - | \$ - |
| Tax increment financing collections | 125,512 | - | - |
| Other city tax | 90,754 | - | - |
| Licenses and permits | 58,863 | - | - |
| Use of money and property | 67,787 | - | - |
| Intergovernmental | 1,701,605 | - | - |
| Charges for service | 636,413 | 964,012 | - |
| Special assessments | 768 | - | - |
| Miscellaneous | 255,315 | 1,551 | - |
| TOTAL RECEIPTS | <u>\$ 5,343,521</u> | <u>\$ 965,563</u> | <u>\$ -</u> |
| DISBURSEMENTS: | | | |
| Public safety | \$ 1,284,193 | \$ - | \$ - |
| Public works | 1,376,244 | - | - |
| Health and social services | - | - | - |
| Culture and recreation | 440,350 | - | - |
| Community and economic development | 29,966 | - | - |
| General government | 817,126 | - | - |
| Debt service | 1,022,485 | - | - |
| Capital projects | 397,048 | - | - |
| Business type activities | - | 618,480 | - |
| TOTAL DISBURSEMENTS | <u>\$ 5,367,412</u> | <u>\$ 618,480</u> | <u>\$ -</u> |
| EXCESS OF RECEIPTS OVER DISBURSEMENTS | \$ (23,891) | \$ 347,083 | \$ - |
| OTHER FINANCING SOURCES, NET | <u>351,770</u> | <u>(351,770)</u> | <u>-</u> |
| EXCESS OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES | \$ 327,879 | \$ (4,687) | \$ - |
| BALANCE, BEGINNING OF YEAR | <u>1,793,788</u> | <u>531,429</u> | <u>-</u> |
| BALANCE, END OF YEAR | <u>\$ 2,121,667</u> | <u>\$ 526,742</u> | <u>\$ -</u> |

See accompanying independent auditor's report.

| Net | Budgeted Amounts | | Final to Net Variance |
|--------------------|---------------------|--------------------|-----------------------|
| | Original | Final | |
| \$2,406,504 | \$ 2,286,228 | \$2,286,228 | \$ 120,276 |
| 125,512 | 125,232 | 125,232 | 280 |
| 90,754 | 195,601 | 222,601 | (131,847) |
| 58,863 | 30,270 | 58,270 | 593 |
| 67,787 | 53,378 | 56,378 | 11,409 |
| 1,701,605 | 1,388,124 | 1,637,071 | 64,534 |
| 1,600,425 | 1,704,118 | 1,775,933 | (175,508) |
| 768 | - | - | 768 |
| 256,866 | 91,300 | 165,829 | 91,037 |
| <u>\$6,309,084</u> | <u>\$ 5,874,251</u> | <u>\$6,327,542</u> | <u>\$ (18,458)</u> |
| \$1,284,193 | \$ 1,213,684 | \$1,368,403 | \$ 84,210 |
| 1,376,244 | 1,299,564 | 1,360,564 | (15,680) |
| - | - | - | - |
| 440,350 | 353,809 | 460,310 | 19,960 |
| 29,966 | 21,885 | 30,235 | 269 |
| 817,126 | 951,586 | 1,105,695 | 288,569 |
| 1,022,485 | 1,168,180 | 1,168,180 | 145,695 |
| 397,048 | 400,000 | 425,000 | 27,952 |
| 618,480 | 591,815 | 591,815 | (26,665) |
| <u>\$5,985,892</u> | <u>\$ 6,000,523</u> | <u>\$6,510,202</u> | <u>\$ 524,310</u> |
| \$ 323,192 | \$ (126,272) | \$ (182,660) | \$ 505,852 |
| - | 125,000 | 125,000 | (125,000) |
| \$ 323,192 | \$ (1,272) | \$ (57,660) | <u>\$ 380,852</u> |
| 2,325,217 | 5,341,632 | 5,341,632 | |
| <u>\$2,648,409</u> | <u>\$ 5,340,360</u> | <u>\$5,283,972</u> | |

CITY OF CRESTON, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2005

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 \$509,679. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public works and business type activities functions and in the community and economic development function prior to budget amendments.

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, 2005

Schedule 1

| | Special Revenue | | |
|--|----------------------------------|--------------------|-----------------------------------|
| | Police and Fire Retirement | Emergency | Urban Renewal Tax Increment |
| RECEIPTS: | | | |
| Property tax | \$ 172,658 | \$ 36,681 | \$ - |
| Tax increment financing collections | - | - | 125,512 |
| Other city tax | - | - | - |
| Licenses and permits | - | - | - |
| Uses of money and property | - | - | - |
| Intergovernmental | - | - | - |
| Charges for services | - | - | - |
| Special assessments | - | - | - |
| Miscellaneous | - | - | - |
| TOTAL RECEIPTS | \$ 172,658 | \$ 36,681 | \$ 125,512 |
| DISBURSEMENTS: | | | |
| Operating: | | | |
| Public safety | \$ 151,558 | \$ - | \$ - |
| Public works | - | - | - |
| Health and social services | - | - | - |
| Culture and recreation | - | - | - |
| Community and economic development | - | - | - |
| General government | - | - | - |
| Debt service | - | - | - |
| Capital projects | - | - | - |
| TOTAL DISBURSEMENTS | \$ 151,558 | \$ - | \$ - |
| EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS | \$ 21,100 | \$ 36,681 | \$ 125,512 |
| OTHER FINANCING SOURCES (USES): | | | |
| Operating transfers in | \$ - | \$ - | \$ - |
| Operating transfers out | (2,961) | (36,681) | (213,409) |
| TOTAL OTHER FINANCING SOURCES (USES) | \$ (2,961) | \$ (36,681) | \$ (213,409) |

See accompanying independent auditor's report.

| Special Revenue | | | Permanent | | | Total |
|------------------|------------------|---------------------|---------------------|-------------------------|-------------------------------|---------------------|
| Skate Park | Library | Cemetery Betterment | Capital Projects | Cemetery Perpetual Care | Cemetery Perpetual Decoration | |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 209,339 |
| - | - | - | - | - | - | 125,512 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 260 | 1,347 | 39 | - | - | - | 1,646 |
| - | - | - | 226,197 | - | - | 226,197 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 32,816 | 44,708 | 60 | - | 2,580 | - | 80,164 |
| <u>\$ 33,076</u> | <u>\$ 46,055</u> | <u>\$ 99</u> | <u>\$ 226,197</u> | <u>\$ 2,580</u> | <u>\$ -</u> | <u>\$ 642,858</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 151,558 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 4,281 | 32,152 | - | - | - | - | 36,433 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | 397,048 | - | - | 397,048 |
| <u>\$ 4,281</u> | <u>\$ 32,152</u> | <u>\$ -</u> | <u>\$ 397,048</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 585,039</u> |
| <u>\$ 28,795</u> | <u>\$ 13,903</u> | <u>\$ 99</u> | <u>\$ (170,851)</u> | <u>\$ 2,580</u> | <u>\$ -</u> | <u>\$ 57,819</u> |
| \$ 600 | \$ - | \$ - | \$ 116,908 | \$ - | \$ - | \$ 117,508 |
| - | - | (150) | - | - | - | (253,201) |
| <u>\$ 600</u> | <u>\$ -</u> | <u>\$ (150)</u> | <u>\$ 116,908</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (135,693)</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, 2005

Schedule 1

| | Special Revenue | | |
|----------------------------------|----------------------------------|-----------|-----------------------------------|
| | Police and Fire Retirement | Emergency | Urban Renewal Tax Increment |
| NET CHANGE IN CASH BALANCES | \$ 18,139 | \$ - | \$ (87,897) |
| CASH BALANCES, BEGINNING OF YEAR | 17,922 | - | 161,712 |
| CASH BALANCES, END OF YEAR | \$ 36,061 | \$ - | \$ 73,815 |
| CASH BASIS FUND BALANCES: | | | |
| Reserve: | | | |
| Debt service | \$ - | \$ - | \$ - |
| Unreserved: | | | |
| General fund | - | - | - |
| Special revenue funds | 36,061 | - | 73,815 |
| Capital projects fund | - | - | - |
| Permanent fund | - | - | - |
| TOTAL CASH BASIS FUND BALANCES | \$ 36,061 | \$ - | \$ 73,815 |

See accompanying independent auditor's report.

| Special Revenue | | | | Permanent | | Total |
|------------------|------------------|---------------------|------------------|-------------------------|-------------------------------|-------------------|
| Skate Park | Library Building | Cemetery Betterment | Capital Projects | Cemetery Perpetual Care | Cemetery Perpetual Decoration | |
| \$ 29,395 | \$ 13,903 | \$ (51) | \$ (53,943) | \$ 2,580 | \$ - | \$ (77,874) |
| - | 80,947 | 6,687 | 55,596 | 184,471 | 22,787 | 530,122 |
| <u>\$ 29,395</u> | <u>\$ 94,850</u> | <u>\$ 6,636</u> | <u>\$ 1,653</u> | <u>\$ 187,051</u> | <u>\$ 22,787</u> | <u>\$ 452,248</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - | - |
| 29,395 | 94,850 | 6,636 | - | - | - | 240,757 |
| - | - | - | 1,653 | - | - | 1,653 |
| - | - | - | - | 187,051 | 22,787 | 209,838 |
| <u>\$ 29,395</u> | <u>\$ 94,850</u> | <u>\$ 6,636</u> | <u>\$ 1,653</u> | <u>\$ 187,051</u> | <u>\$ 22,787</u> | <u>\$ 452,248</u> |

CITY OF CRESTON, IOWA
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2005

Schedule 2

| <u>Obligation</u> | <u>Date of Issue</u> | <u>Interest Rate</u> | <u>Amount Originally Issued</u> |
|--|----------------------|----------------------|---------------------------------|
| General obligation bonds: | | | |
| 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 |
| Highway 34/25 improvements | March 11, 2003 | 0.00% | 314,410 |
| Total | | | |

See accompanying independent auditor's report.

| <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> |
|--|-----------------------------------|-------------------------------------|------------------------------------|--------------------------|--|
| \$ 2,120,000 | \$ - | \$ 105,000 | \$ 2,015,000 | \$ 103,720 | \$ - |
| <u>\$ 2,120,000</u> | <u>\$ -</u> | <u>\$ 105,000</u> | <u>\$ 2,015,000</u> | <u>\$ 103,720</u> | <u>\$ -</u> |
| \$ 945,000 | \$ - | \$ 360,000 | \$ 585,000 | \$ 21,585 | \$ - |
| <u>\$ 945,000</u> | <u>\$ -</u> | <u>\$ 360,000</u> | <u>\$ 585,000</u> | <u>\$ 21,585</u> | <u>\$ -</u> |
| \$ 532,000 | \$ - | \$ 38,000 | \$ 494,000 | \$ 24,153 | \$ - |
| 1,776,000 | - | 103,000 | 1,673,000 | 80,630 | - |
| 646,000 | - | 35,000 | 611,000 | 27,326 | - |
| 19,983 | - | 9,983 | 10,000 | 1,042 | - |
| 32,943 | - | 32,943 | - | 1,605 | - |
| 121,146 | - | 59,666 | 61,480 | 6,948 | - |
| 50,000 | - | 10,000 | 40,000 | 1,875 | - |
| - | 314,410 | - | 314,410 | - | - |
| <u>\$ 3,178,072</u> | <u>\$ 314,410</u> | <u>\$ 288,592</u> | <u>\$ 3,203,890</u> | <u>\$ 143,579</u> | <u>\$ -</u> |

CITY OF CRESTON, IOWA
BOND AND OTHER DEBT MATURITIES
JUNE 30, 2005

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 |
| 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>\$ 2,015,000</u> | | <u>\$ 585,000</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 |
| 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>\$ 494,000</u> | | <u>\$ 1,673,000</u> |

See accompanying independent auditor's report.

Other Debt

| State Revolving Funds Loan | | Street Extension Loan | |
|-------------------------------|-------------------|--------------------------|------------------|
| Dated March 20, 1998 | | Dated July 1, 1997 | |
| Interest Rates | Amount | Interest Rates | Amount |
| 4.23 | \$ 36,000 | 6.00 | \$ 10,000 |
| 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>\$ 611,000</u> | | <u>\$ 10,000</u> |

Other Debt

| Equipment Loan | | Equipment Loan | | Highway 34/25 Improvements | | Total Other Debt |
|-------------------|------------------|-------------------|------------------|-------------------------------|-------------------|------------------------|
| Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | |
| 5.75 | \$ 61,480 | 3.75 | \$ 10,000 | --- | \$ 104,803 | \$ 370,283 |
| --- | - | 3.75 | 10,000 | --- | 104,803 | 307,803 |
| --- | - | 3.75 | 10,000 | --- | 104,804 | 315,804 |
| --- | - | 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>\$ 61,480</u> | | <u>\$ 40,000</u> | | <u>\$ 314,410</u> | <u>\$ 3,203,890</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>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|
| RECEIPTS: | | | | |
| Property tax | \$ 2,406,504 | \$ 2,483,369 | \$ 2,338,422 | \$ 2,374,839 |
| Tax incremental financing collections | 125,512 | 164,306 | 149,708 | 88,740 |
| Other city tax | 90,754 | 80,447 | 13,285 | - |
| Licenses and permits | 58,863 | 46,038 | 30,384 | 30,924 |
| Uses of money and property | 67,787 | 92,390 | 79,576 | 103,976 |
| Intergovernmental | 1,701,605 | 1,402,099 | 1,272,239 | 1,321,996 |
| Charges for services | 636,413 | 529,473 | 473,254 | 580,992 |
| Special assessments | 768 | 768 | - | - |
| Miscellaneous | 255,315 | 251,883 | 199,765 | 274,962 |
| TOTAL | <u>\$ 5,343,521</u> | <u>\$ 5,050,773</u> | <u>\$ 4,556,633</u> | <u>\$ 4,776,429</u> |
| DISBURSEMENTS: | | | | |
| Operating: | | | | |
| Public safety | \$ 1,284,193 | \$ 1,357,093 | \$ 1,217,445 | \$ 1,288,567 |
| Public works | 1,376,244 | 1,151,227 | 1,065,402 | 1,121,466 |
| Health and social services | - | - | - | - |
| Culture and recreation | 440,350 | 364,896 | 422,770 | 418,304 |
| Community and economic development | 29,966 | 26,770 | 26,827 | 26,541 |
| General government | 817,126 | 1,058,487 | 1,105,507 | 1,199,160 |
| Debt service | 1,022,485 | 1,083,828 | 2,369,043 | 1,360,382 |
| Capital projects | 397,048 | 102,172 | 100,868 | 7,868 |
| TOTAL | <u>\$ 5,367,412</u> | <u>\$ 5,144,473</u> | <u>\$ 6,307,862</u> | <u>\$ 5,422,288</u> |

See accompanying independent auditor's report.

CITY OF CRESTON, IOWA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2005

Schedule 5

| <u>Federal grantor/pass-through grant/program name</u> | <u>Federal CFDA* Number</u> | <u>Total Federal Expenditures</u> |
|---|-------------------------------------|---|
| United States Department Of Homeland Security: Assistance to Fire Fighters Grant | 97.044 | <u>\$ 74,486</u> |
| United States Department of Housing and Urban Development: Passed through Iowa Department of Economic Development: Community Development Block Grant | 14.219 | <u>\$ 141,343</u> |
| United States Department of Transportation: Passed through Iowa Department of Transportation: Highway Planning and Construction | 20.205 | \$ 232,197 |
| Airport Improvement Program | 20.106 | <u>93,743</u> |
| | | <u>\$ 325,940</u> |
| Passed through Iowa Department of Public Safety: State incentive grants for use of seat belts | 20.604 | <u>\$ 5,217</u> |
| Total Federal Expenditures | | <u><u>\$ 546,986</u></u> |

*Catalog of Federal Domestic Assistance

See accompanying independent auditor's report.

CITY OF CRESTON, IOWA
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Creston, Iowa, and is presented on the cash receipts and disbursements basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

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, 2005, and have issued our report thereon dated August 5, 2005. 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 and Questioned Costs.

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 been resolved except for items 2004-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 and Questioned Costs.

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 2004-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 5, 2005

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the City of Creston, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The City of Creston, Iowa's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB-Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Creston, Iowa's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Creston, Iowa's compliance with those requirements.

In our opinion, the City of Creston, Iowa, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the City of Creston, Iowa, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Creston Iowa's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the City of Creston, Iowa's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs.

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 noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance 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 that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

August 5, 2005

CITY OF CRESTON, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2005

PART I: SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS

- a. An unqualified opinion was issued on the financial statements.
- b. Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- c. The audit did not disclose any noncompliance which is material to the financial statements.
- d. Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.
- e. An unqualified opinion was issued on compliance with requirements applicable to each major program.
- f. The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133 Section 510(9).
- g. Major programs were as follows:
 - CFDA Number 20.205 – Highway Planning and Construction
 - 97.044 – Assistance to Fire Fighters Grant
- h. The dollar threshold used to distinguish between type a and type b programs was \$300,000.
- i. The City of Creston, Iowa, did not qualify as a low risk auditee.

PART II. FINDINGS RELATED TO THE FINANCIAL STATEMENTS

REPORTABLE CONDITIONS

- 2005-II-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.

CITY OF CRESTON, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2005

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 III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

INSTANCES OF NONCOMPLIANCE

No matters were reported.

REPORTABLE CONDITIONS:

2005-III-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. See audit findings 2005-II-A.

PART IV: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

2005-IV-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.

CITY OF CRESTON, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2005

- 2004-IV-2 Certified Budget: Disbursements during the year ended June 30, 2005, exceeded the amounts budgeted in the Community and Economic Development Function prior to the budget amendment and in the Public Works and Business Type Activities 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.
- 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.
- 2005-IV-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.
- 2005-IV-4 Travel Expense: No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.
- 2005-IV-5 Business Transactions: There were no business transactions noted between the City and City officials and/or employees.
- 2005-IV-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.
- 2005-IV-7 Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.
- 2005-IV-8 Revenue Bonds: The City does not have revenue bonds, only general obligation bonds.
- 2005-IV-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.