

CITY OF CRESTON, IOWA

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

Year Ended June 30, 2006

CITY OF CRESTON, IOWA  
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CITY OF CRESTON, IOWA  
CITY OFFICIALS  
June 30, 2006

<u>Name</u>	<u>Title</u> (Before January 2006)	<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
(After January 2006)		
Mike Tamerius	Mayor	January 1, 2008
Lois Monday	Council Member	January 1, 2008
Larry Wagner	Council Member	January 1, 2009
Randy White	Council Member	January 1, 2009
Terri Koets	Council Member	January 1, 2009
Richard Madison	Council Member	January 1, 2008
Betty Shelton	Council Member	January 1, 2009
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, 2006, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards 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 opinions.

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, 2006, 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 11, 2006, on our consideration of City of Creston, Iowa'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.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 28 through 29 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, 2005 (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, Smolgrass, Mitchell & Co., P.C.*

August 11, 2006

## **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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **Financial Highlights**

Government Activities total revenues increased by \$653,686 from the previous fiscal year. Intergovernmental Revenues, Other City Taxes, Licenses and Permits, Use of Money and Property, and Miscellaneous Revenues all increased. Other City Taxes displayed the highest increase due to the imposition of the one-cent Local Option Sales Tax.

Government Activities total expenditures increased by \$711,590. Public Safety, Culture and Recreation, Community and Economic Development, and General Government increased, while all other program areas showed a decrease in expenditures. Public Safety increased by \$98,347 due to the purchase of a police car and the hiring of two officers. The General Government activity increased by \$1,042,462.

The City's total cash basis net assets increased by \$2,249,781. The Employee Benefits Fund had a gain of \$198,576 due to low health insurance claims, and reimbursement checks through reinsurance for several large claims. The Debt Service Fund showed a substantial gain of \$1,646,618 which was due to the advance sale of bonds, the receipts to be used to retire another bond when it becomes callable. The interest earnings from this advance sale will offset the interest costs of issuing the bonds. The Road Use Fund showed a slight increase of \$11,766, and other non-Governmental Funds increased by \$111,923. The Road Use Fund received some financial assistance, as did the Sewer Fund, due to the passage of the Local Option Sales Tax which enabled the City to finance street and sewer repair projects. Local Option Sales Tax collections amounted to \$564,073, which is ninety-five percent (95%) of the total anticipated by the Department of Revenue and Finance. Anticipated Local Option Sales Tax Receipts for the following 12 months are estimated to be \$779,350. One-half of the total receipts for the Local Option Sales Tax are used for property tax relief and the remaining amounts fund street and sewer improvement projects.

### **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.

Supplementary 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 Benefits 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 \$2,249,781. The analysis below focuses on this change in cash balance and changes in receipts and disbursements from the two prior years.

### Change in Cash Balance of Governmental Activities

	<u>2006</u>	<u>2005</u>
Receipts and transfers:		
Program receipts:		
Charges for services and sales	\$ 631,690	\$ 636,413
Operating grants, contributions and restricted interest	1,714,568	1,701,605
Intergovernmental revenues		
General receipts:		
Property tax	2,347,714	2,406,504
Tax incremental financing collections	123,798	125,512
Other city tax	642,641	90,754
Licenses and permits	83,496	58,863
Use of money and property	178,858	67,787
Bond and short term debt proceeds	1,777,631	---
Other general receipts	274,442	256,083
Transfers-in	<u>1,221,204</u>	<u>737,131</u>
 Total receipts and transfers	 <u>\$8,996,042</u>	 <u>\$6,080,652</u>
 Disbursements:		
Public safety	\$1,382,540	\$1,284,193
Public works	1,242,654	1,376,244
Health and social services		
Culture and recreation	475,808	440,350
Community and economic development	36,840	29,966
General government	1,859,588	817,126
Debt service	987,032	1,022,485
Capital projects	94,540	397,048
Transfers-out	<u>667,259</u>	<u>385,361</u>
 Total disbursements and transfers	 <u>\$6,746,261</u>	 <u>\$5,752,773</u>
 Increase in cash balance	 \$2,249,781	 \$ 327,879
 Cash balance, beginning of fiscal year	 <u>2,121,667</u>	 <u>1,793,788</u>
 Cash balance, end of fiscal year	 <u>\$4,371,448</u>	 <u>\$2,121,667</u>

The City's total receipts for governmental activities increased by twelve percent (12%) or \$653,686. The total cost of all programs and services increased by approximately thirteen percent (13%) or \$711,590 with no new programs added this year. The increase in receipts was due primarily to the first year collections of the Local Option Sales Tax and Interest Earnings. The increase in expenditures was due primarily to pass through grant expenditures and more than anticipated costs in both tort insurance and health insurance claims and premiums.

The City decreased the property tax rates in 2006 by approximately four and nine tenths percent (4.9%). 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 transfer of some personnel costs from the General Fund to the Sewer Operating Fund and Road Use Fund and making use of fifty percent (50%) of the Local Option Sales Tax receipts for property tax relief. The property tax rate is expected to decrease by twenty-eight percent (28%) for the 2007 fiscal year.

The cost of all governmental activities this year was \$6,528,869 compared to \$5,753,043 last year. The General Fund showed a slight lost of \$3,022 from the previous fiscal year.

#### Business Type Activities

	<u>2006</u>	<u>2005</u>
Receipts		
Program receipts:		
Charges for services and sales	\$ 997,032	\$ 964,012
Uses of money and property	1,613	1,551
Transfers in	<u>86,005</u>	<u>---</u>
Total revenues	<u>\$1,084,650</u>	<u>\$ 965,563</u>
Disbursements and transfers:		
Personal services	\$ 198,163	\$ 451,623
Services and commodities	171,532	138,278
Capital outlay	80,172	28,579
Transfers out	<u>639,951</u>	<u>351,770</u>
Total disbursements and transfers	<u>\$1,089,818</u>	<u>\$ 970,250</u>
Increase (decrease) in cash balance	\$ (5,168)	\$ (4,687)
Cash balance, beginning of fiscal year	<u>526,742</u>	<u>531,429</u>
Cash balance, end of fiscal year	<u>\$ 521,574</u>	<u>\$ 526,742</u>

Total business type activity receipts for the fiscal year were \$1,084,650 compared to \$965,563 last fiscal year. The revenue increase was due primarily to an increase in transfers-in from the Local Option Sales Tax for construction projects completed during the fiscal year.

The cash balance decreased by approximately \$5,168 due to additional administrative personnel costs transferred to the Wastewater Department from the General Fund. This is reflected by the increase in the Transfers Out from the Sewer Operating Fund to the General Fund to cover these administrative personnel costs.

## **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 \$866,095, a decrease of \$3,022.

The Road Use Tax Fund cash balance increased from \$37,234 to \$49,000, during the fiscal year. The fund achieved an increase due to the funding from the Local Option Sales Taxes, which helped to pay for curb and gutter and street repairs completed.

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 \$198,576 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 \$422,443 in property taxes and transferred \$476,723 from other funds to make payments for these obligations. The fund showed a gain of \$1,646,618 for the fiscal year just completed and has a fund balance of \$1,761,634. The gain was due to the receipt of sale proceeds for a bond to be used to retire previously issued and callable bonds in June of 2008. Another portion of the fund balance is being held in reserve to make the first of three annual payments to the Iowa Department of Transportation for highway work completed for the City of Creston along Highway 25. That amount is \$104,804.

## Proprietary Funds

The cash balance of the Sewer Fund decreased by \$5,168. The City is under an administrative order from the Iowa Department of Natural Resources to address the issue on inflow and infiltration and has an ongoing program in place. The distribution of Local Option Sales Tax dollars into the Sewer Fund to address the inflow and infiltration order will allow for annual capital improvement projects to continue.

## 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 30, 2006 and resulted in an increase in operating disbursements related to a budget overrun of approximately \$2,005,027 on various departmental budgets due primarily to the handling of some pass through grant moneys to the Water Department, street and sewer repair projects, and maintenance and utility charges. The amendment also included a projected increase in revenue of \$2,184,442.

Even with this amendment, the City exceeded the budget for the Public Safety, Community and Economic Development and the General Government areas.

## Debt Administration

At year-end, the City had approximately \$6,929,810 in bonds and other long-term debt compared to \$5,803,890 last year as shown below.

### Outstanding Debt at Year End

	<u>2006</u>	<u>2005</u>
General obligation bonds	\$1,905,000	\$2,015,000
Capital loan notes – refunding notes	285,000	585,000
Street extension loan	---	10,000
Equipment loan	---	61,480
Refunding bond – GO bonds callable in June 01, 2008	1,725,000	---
State revolving fund wastewater bonds	2,596,000	2,778,000
Fire truck loan	30,000	40,000
Iowa Department of Transportation – no interest loan	314,410	314,410
Park maintenance building loan	<u>74,400</u>	<u>---</u>
Total	<u>\$6,929,810</u>	<u>\$5,803,890</u>

The Park Maintenance Building Loan will be repaid by use of Hotel and Motel Tax and will not cause an increase 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 Debt Service Levy for the fiscal year ending June 30, 2007 will be zero as Local Option Sales Tax receipts will be used for property tax relief and will eliminate this tax for the next fiscal year. The City sold a bond issue, in the amount of \$1,725,000 in anticipation of retiring the General Obligation Bond of \$1,905,000. The bond interest will be paid from the invested earnings of the bond which will be used in June of 2008 to retire the \$1,905,000 bond issue. 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 \$4,014,400 is well below the City's \$11,883,595 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 2007 fiscal year budget, tax rates, and fees that will be charged for various City activities. In addition, return on investment and the cost of employee benefits are primary concerns in setting a budget.

These factors all contributed when adopting the fiscal year 2007 budget. Amounts available for appropriations in the budget are \$13,846,076. This amount includes all Business Type Activities, including the Sewer and Water Department expenditures. Steps implemented by the City, including the careful utilization of Local Option Sales Tax receipts, 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 2006 budget. The property tax rate of \$11.67716 for the fiscal year ending June 30, 2007 is a twenty-eight percent (28%) reduction from the current fiscal year and was accomplished by drawing down employee benefit fund reserves and using one-half of the proceeds from the Local Option Sales Tax to reduce the property tax rate.

## **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, 2006

Exhibit A

FUNCTIONS/PROGRAMS:	Disbursements	PROGRAM RECEIPTS		
		Charges For Services	Operating Grants Contributions, and Restricted Interest	Capital Grants Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 1,382,540	\$ 224,563	\$ 94,203	\$ -
Public works	1,242,654	558,922	638,462	1,242
Health and social services	-	-	-	-
Culture and recreation	475,808	162,206	95,274	-
Community/economic development	36,840	-	-	-
General government	1,859,588	311,321	513,538	-
Debt service	987,032	-	-	-
Capital projects	94,540	-	-	51,800
Total governmental activities	\$ 6,079,002	\$ 1,257,012	\$ 1,341,477	\$ 53,042
Business type activities:				
Sewer	\$ 449,867	\$ 998,645	\$ -	\$ -
Total business type activities	\$ 449,867	\$ 998,645	\$ -	\$ -
TOTAL PRIMARY GOVERNMENT	\$ 6,528,869	\$ 2,255,657	\$ 1,341,477	\$ 53,042
COMPONENT UNIT:				
Water Works	\$ 4,747,131	\$ 3,339,845	\$ -	\$ 810,232
GENERAL RECEIPTS:				
Property taxes levied for:				
General purposes				
Tax incremental financing				
Debt service				
Hotel/motel sales tax				
Local option 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				
Local option sales tax				
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
\$ (1,063,774)	\$ -	\$ (1,063,774)	\$ -
(44,028)	-	(44,028)	-
-	-	-	-
(218,328)	-	(218,328)	-
(36,840)	-	(36,840)	-
(1,034,729)	-	(1,034,729)	-
(987,032)	-	(987,032)	-
(42,740)	-	(42,740)	-
<u>\$ (3,427,471)</u>	<u>\$ -</u>	<u>\$ (3,427,471)</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ 548,778</u>	<u>\$ 548,778</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ 548,778</u>	<u>\$ 548,778</u>	<u>\$ -</u>
<u>\$ (3,427,471)</u>	<u>\$ 548,778</u>	<u>\$ (2,878,693)</u>	<u>\$ -</u>
			<u>\$ (597,054)</u>
\$ 1,926,040	\$ -	\$ 1,926,040	\$ -
123,798	-	123,798	-
422,443	-	422,443	-
78,568	-	78,568	-
564,073	-	564,073	-
7,487	-	7,487	-
153,812	-	153,812	105,874
1,777,631	-	1,777,631	-
63,047	-	63,047	129,919
6,407	-	6,407	-
553,946	(553,946)	-	-
<u>\$ 5,677,252</u>	<u>\$ (553,946)</u>	<u>\$ 5,123,306</u>	<u>\$ 235,793</u>
\$ 2,249,781	\$ (5,168)	\$ 2,244,613	\$ (361,261)
2,121,667	526,742	2,648,409	3,614,275
<u>\$ 4,371,448</u>	<u>\$ 521,574</u>	<u>\$ 4,893,022</u>	<u>\$ 3,253,014</u>
\$ 49,000	\$ -	\$ 49,000	
846,628	-	846,628	
283,920	-	283,920	
1,761,634	-	1,761,634	
564,171	540,410	1,104,581	
866,095	(18,836)	847,259	
<u>\$ 4,371,448</u>	<u>\$ 521,574</u>	<u>\$ 4,893,022</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, 2006

Exhibit B

	SPECIAL REVENUE		
	General	Road Use Tax	Employee Benefits
RECEIPTS:			
Property taxes	\$ 1,346,431	\$ -	\$ 357,579
Tax increment financing collections	-	-	-
Other city taxes	78,568	-	-
Licenses and permits	83,496	-	-
Use of money and property	120,933	6,225	-
Intergovernmental	773,618	636,062	253,088
Charges for service	627,365	4,325	-
Special assessments	770	-	-
Miscellaneous	76,792	7,780	50,037
Total receipts	\$ 3,107,973	\$ 654,392	\$ 660,704
DISBURSEMENTS:			
Operating:			
Public safety	\$ 1,184,833	\$ -	\$ -
Public works	597,747	644,907	-
Health and social services	-	-	-
Culture and recreation	438,947	-	-
Community/economic development	36,840	-	-
General government	1,037,705	-	821,883
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	\$ 3,296,072	\$ 644,907	\$ 821,883
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ (188,099)	\$ 9,485	\$ (161,179)
OTHER FINANCING SOURCES (USES):			
Bond proceeds	\$ -	\$ -	\$ -
Short term note proceeds	-	-	-
Operating transfers in	212,425	190,447	359,755
Operating transfers out	(27,348)	(188,166)	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ 185,077	\$ 2,281	\$ 359,755
NET CHANGE IN CASH BALANCES	\$ (3,022)	\$ 11,766	\$ 198,576
CASH BALANCES, BEGINNING OF YEAR	869,117	37,234	648,052
CASH BALANCES, END OF YEAR	\$ 866,095	\$ 49,000	\$ 846,628
CASH BASIS FUND BALANCES:			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	866,095	-	-
Special revenue funds	-	49,000	846,628
Capital projects fund	-	-	-
Permanent fund	-	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 866,095	\$ 49,000	\$ 846,628

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

SPECIAL REVENUE

<u>Local Option Sales Tax</u>	<u>Debt Service</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
\$ -	\$ 422,443	\$ 221,261	\$ 2,347,714
-	-	123,798	123,798
564,073	-	-	642,641
-	-	-	83,496
-	49,853	1,847	178,858
-	-	51,800	1,714,568
-	-	-	631,690
-	-	-	770
-	-	139,063	273,672
<u>\$ 564,073</u>	<u>\$ 472,296</u>	<u>\$ 537,769</u>	<u>\$ 5,997,207</u>
\$ -	\$ -	\$ 197,707	\$ 1,382,540
-	-	-	1,242,654
-	-	-	-
-	-	36,861	475,808
-	-	-	36,840
-	-	-	1,859,588
-	987,032	-	987,032
-	-	94,540	94,540
<u>\$ -</u>	<u>\$ 987,032</u>	<u>\$ 329,108</u>	<u>\$ 6,079,002</u>
\$ 564,073	\$ (514,736)	\$ 208,661	\$ (81,795)
\$ -	\$ 1,684,631	\$ -	\$ 1,684,631
-	-	93,000	93,000
-	476,723	4,601	1,243,951
<u>(280,153)</u>	<u>-</u>	<u>(194,339)</u>	<u>(690,006)</u>
<u>\$ (280,153)</u>	<u>\$ 2,161,354</u>	<u>\$ (96,738)</u>	<u>\$ 2,331,576</u>
\$ 283,920	\$ 1,646,618	\$ 111,923	\$ 2,249,781
-	115,016	452,248	2,121,667
<u>\$ 283,920</u>	<u>\$ 1,761,634</u>	<u>\$ 564,171</u>	<u>\$ 4,371,448</u>
\$ -	\$ 1,761,634	\$ -	\$ 1,761,634
-	-	-	866,095
283,920	-	300,020	1,479,568
-	-	51,913	51,913
-	-	212,238	212,238
<u>\$ 283,920</u>	<u>\$ 1,761,634</u>	<u>\$ 564,171</u>	<u>\$ 4,371,448</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, 2006

	Exhibit C
	Enterprise Fund
	Sewer
OPERATING RECEIPTS:	
Charge for service	\$ 997,032
Total operating receipts	\$ 997,032
OPERATING DISBURSEMENTS:	
Business type activities	\$ 449,867
Total operating disbursements	\$ 449,867
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	\$ 547,165
NON-OPERATING RECEIPTS (DISBURSEMENTS):	
Interest on investments	\$ -
Miscellaneous	1,613
Debt service	-
Total non-operating receipts (disbursements)	\$ 1,613
EXCESS OF RECEIPTS OVER DISBURSEMENTS	\$ 548,778
OTHER FINANCING SOURCES (USES):	
Operating transfers in	\$ 86,005
Operating transfers out	(639,951)
Total other financing sources (uses)	\$ (553,946)
NET CHANGE IN CASH BALANCES	\$ (5,168)
CASH BALANCES, BEGINNING OF YEAR	526,742
CASH BALANCES, END OF YEAR	\$ 521,574
CASH BASIS FUND BALANCES:	
Reserved for debt service	\$ -
Reserved for capital replacement	463,250
Reserved for storm water	77,160
Unreserved	(18,836)
Total cash basis fund balances	\$ 521,574

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

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

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, 2006

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, 2006

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 Local Option Sales Tax Fund is used to account for sales tax revenues for specific uses per the ordinance authorizing the local option sales tax.

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, 2006

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, 2006, disbursements exceeded the amounts budgeted in the general government and capital projects function prior to amendment and in the public safety, community and economic development, and general government functions after amendments.

Note 2. Deposits and Investments

The City's deposits at June 30, 2006, 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, 2006, 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, 2006

Note 3. Bonds Payable and Other Debt (continued)

Principal				
Year Ending	General	General	Other	Total
June 30,	Obligation	Obligation	Debt	
	Bonds	Capital		
		Loan Notes		
2007	\$ 110,000	\$ 140,000	\$ 326,403	\$ 576,403
2008	115,000	145,000	334,403	594,403
2009	120,000	130,000	343,404	593,404
2010	125,000	135,000	238,600	498,600
2011	130,000	140,000	230,000	500,000
2012-2016	760,000	775,000	1,249,000	2,784,000
2017-2019	<u>545,000</u>	<u>540,000</u>	<u>291,000</u>	<u>1,376,000</u>
	<u>\$1,905,000</u>	<u>\$2,005,000</u>	<u>\$3,012,810</u>	<u>\$6,922,810</u>

Interest				
Year Ending	General	General	Other	Total
June 30,	Obligation	Obligation	Debt	
	Bonds	Capital		
		Loan Notes		
2007	\$ 91,896	\$ 72,523	\$ 119,827	\$ 284,246
2008	85,846	68,883	110,133	264,862
2009	80,612	64,678	100,069	245,359
2010	75,212	60,453	89,608	225,273
2011	69,462	55,930	79,075	204,467
2012-2016	246,972	200,781	231,509	679,262
2017-2019	<u>54,146</u>	<u>45,070</u>	<u>15,308</u>	<u>114,524</u>
	<u>\$ 704,146</u>	<u>\$ 568,318</u>	<u>\$ 745,529</u>	<u>\$2,017,993</u>

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.

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 3. Bonds Payable and Other Debt (continued)

- (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 a State Revolving Funds Loan to finance the construction of a sludge lagoon. The total loan award was for \$810,000. The balance at June 30, 2006 is \$454,000. The loan bears interest at 3% and interest payments are due June 1 and December 1. Principal payments are due June 1.

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 was for \$2,383,000. The balance at June 30, 2006, is \$1,565,000. The loan bears interest at 4.54% and interest payments are due June 1 and December 1. Principal payments are due June 1.

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 was for \$829,000. The balance at June 30, 2006, is \$575,000. 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, 2006, is \$0.

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 3. Bonds Payable and Other Debt (continued)

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, 2006 is \$0.

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, 2006 is \$30,000.

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, 2007.

On July 22, 2005, the City entered into a note agreement with a financial institution for financing the construction of a park maintenance shed at a cost of \$93,000 at 3.65% interest. Interest payments are due June 1 and December 1. Principal payments are due June 1 beginning June 1, 2006. The balance at June 30, 2006 is \$74,400.

Note 4. Pension and Retirement Benefits

MFPRSI

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

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 4. Pension and Retirement Benefit (continued)

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 17% of earnable compensation. Contribution requirements are established by State statute. The City's contribution to the Plan for the years ended June 30, 2006, 2005, and 2004 was \$194,992, \$151,555, and \$126,394 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 covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2006, 2005, and 2004 was \$56,096, \$49,888, and \$51,894 respectively, equal to the required contribution for each year.

Note 5. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. They also accumulate a limited amount of sick leave hours which are available for subsequent use only. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

CITY OF CRESTON, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2006

Note 5. Compensated Absences (continued)

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 161,894
Sick leave	<u>426,808</u>
Total	<u>\$ 588,702</u>

This liability has been computed based on rates of pay as of June 30, 2006.

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 \$970,911 for sewer rental and \$469,303 for garbage collections from the Water Works for the year ended June 30, 2006. The City paid the Water Works \$7,433 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, 2006, the Water Works reimbursed the City \$44,401.

As of June 30, 2006, the Water Works owes the following to the City of Creston:

Sewer rental	\$ 128,729
Garbage collections	<u>56,527</u>
	<u>\$ 185,256</u>

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, 2006, the City was reimbursed \$253,088 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, 2006.

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 7. Risk Management

The City of Creston 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. Settled claims from these risks did not exceed commercial insurance coverage during the year ended June 30, 2006.

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, 2007, 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.

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.

CITY OF CRESTON, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2006

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, 2006, is as follows:

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special Revenue:	
	Emergency	\$ 37,516
	Library	600
	Cemetery betterment	6,671
	Local option sales tax	3,700
	Road Use	2,249
	Enterprise:	
	Sewer	<u>161,689</u>
		<u>\$ 212,425</u>
Debt service	General	\$ 22,748
	Special revenue:	
	Urban renewal tax increment	149,552
	Enterprise:	
	Sewer	<u>304,423</u>
		<u>\$ 476,723</u>
Special revenue: McKinley Park	General	<u>\$ 4,601</u>

CITY OF CRESTON, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2006

Note 10. Interfund Transfers (continued)

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
Employee benefits	Enterprise: Sewer	\$ 173,839
	Special revenue: Road use	<u>185,916</u>
		<u>\$ 359,755</u>
Road use	Special revenue: Local option sales tax	<u>\$ 190,447</u>
Enterprise: Sewer	Special revenue: Local option sales tax	<u>\$ 86,005</u>
Total		<u>\$1,329,956</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. A district court ruling was made in the favor of the City of Creston, however the plaintiffs have appealed the matter.

Note 12. Subsequent Events

In July 2006, the City was notified of the awarding of a grant of approximately \$237,500 for taxiway improvements at the city airport.

In July 2006, the City was notified of the awarding of a Community Development Grant of \$360,000 for sewer improvements.

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, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required To Be Budgeted
RECEIPTS:			
Property tax	\$ 2,347,714	\$ -	\$ -
Tax increment financing collections	123,798	-	-
Other city tax	642,641	-	-
Licenses and permits	83,496	-	-
Use of money and property	178,858	-	-
Intergovernmental	1,714,568	-	-
Charges for service	631,690	997,032	-
Special assessments	770	-	-
Miscellaneous	273,672	1,613	-
<b>TOTAL RECEIPTS</b>	<b>\$ 5,997,207</b>	<b>\$ 998,645</b>	<b>\$ -</b>
DISBURSEMENTS:			
Public safety	\$ 1,382,540	\$ -	\$ -
Public works	1,242,654	-	-
Health and social services	-	-	-
Culture and recreation	475,808	-	-
Community and economic development	36,840	-	-
General government	1,859,588	-	-
Debt service	987,032	-	-
Capital projects	94,540	-	-
Business type activities	-	449,867	-
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 6,079,002</b>	<b>\$ 449,867</b>	<b>\$ -</b>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ (81,795)	\$ 548,778	\$ -
OTHER FINANCING SOURCES, NET	2,331,576	(553,946)	-
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	\$ 2,249,781	\$ (5,168)	\$ -
BALANCE, BEGINNING OF YEAR	2,121,667	526,742	-
BALANCE, END OF YEAR	<u>\$ 4,371,448</u>	<u>\$ 521,574</u>	<u>\$ -</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 2,347,714	\$ 2,180,636	\$ 2,180,636	\$ 167,078
123,798	113,213	125,577	(1,779)
642,641	199,186	755,690	(113,049)
83,496	34,247	83,373	123
178,858	57,492	106,736	72,122
1,714,568	1,409,056	2,047,509	(332,941)
1,628,722	1,725,352	1,757,552	(128,830)
770	-	-	770
275,285	4,750	206,206	69,079
<u>\$ 6,995,852</u>	<u>\$ 5,723,932</u>	<u>\$ 7,263,279</u>	<u>\$ (267,427)</u>
\$ 1,382,540	\$ 1,256,642	\$ 1,373,392	\$ (9,148)
1,242,654	1,393,322	1,600,195	357,541
-	-	-	-
475,808	397,318	581,389	105,581
36,840	23,710	23,710	(13,130)
1,859,588	958,529	1,634,202	(225,386)
987,032	1,022,738	1,022,738	35,706
94,540	-	195,665	101,125
449,867	722,757	893,657	443,790
<u>\$ 6,528,869</u>	<u>\$ 5,775,016</u>	<u>\$ 7,324,948</u>	<u>\$ 796,079</u>
\$ 466,983	\$ (51,084)	\$ (61,669)	\$ 528,652
1,777,630	-	190,000	1,587,630
\$ 2,244,613	\$ (51,084)	\$ 128,331	<u>\$ 2,116,282</u>
2,648,409	6,010,876	6,010,876	
<u>\$ 4,893,022</u>	<u>\$ 5,959,792</u>	<u>\$ 6,139,207</u>	

CITY OF CRESTON, IOWA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
June 30, 2006

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

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

Formal and legal budgetary control is based upon 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 \$1,549,932. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, community and economic development, and general government functions and in the general government and capital projects functions 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, 2006

Schedule 1

	Special Revenue			
	Police and Fire Retirement	Emergency	Urban Renewal Tax Increment	McKinley Park
RECEIPTS:				
Property tax	\$ 183,745	\$ 37,516	\$ -	\$ -
Tax increment financing collections	-	-	123,798	-
Other city tax	-	-	-	-
Licenses and permits	-	-	-	-
Uses of money and property	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Special assessments	-	-	-	-
Miscellaneous	-	-	-	74,284
<b>TOTAL RECEIPTS</b>	<b>\$ 183,745</b>	<b>\$ 37,516</b>	<b>\$ 123,798</b>	<b>\$ 74,284</b>
DISBURSEMENTS:				
Operating:				
Public safety	\$ 197,707	\$ -	\$ -	\$ -
Public works	-	-	-	-
Health and social services	-	-	-	-
Culture and recreation	-	-	-	12,733
Community and economic development	-	-	-	-
General government	-	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 197,707</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,733</b>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<b>\$ (13,962)</b>	<b>\$ 37,516</b>	<b>\$ 123,798</b>	<b>\$ 61,551</b>
OTHER FINANCING SOURCES (USES):				
Short term note proceeds	\$ -	\$ -	\$ -	\$ -
Operating transfers in	-	-	-	4,601
Operating transfers out	-	(37,516)	(149,552)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ -</b>	<b>\$ (37,516)</b>	<b>\$ (149,552)</b>	<b>\$ 4,601</b>

See accompanying independent auditor's report.

Special Revenue				Permanent		Total
Skate Park	Library	Cemetery Betterment	Capital Projects	Cemetery Perpetual Care	Cemetery Perpetual Decoration	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 221,261
-	-	-	-	-	-	123,798
-	-	-	-	-	-	-
-	1,847	-	-	-	-	1,847
-	-	-	51,800	-	-	51,800
-	-	-	-	-	-	-
-	-	-	-	-	-	-
48,340	14,014	25	-	2,400	-	139,063
<u>\$ 48,340</u>	<u>\$ 15,861</u>	<u>\$ 25</u>	<u>\$ 51,800</u>	<u>\$ 2,400</u>	<u>\$ -</u>	<u>\$ 537,769</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 197,707
-	-	-	-	-	-	-
-	-	-	-	-	-	-
11,594	12,534	-	-	-	-	36,861
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	94,540	-	-	94,540
<u>\$ 11,594</u>	<u>\$ 12,534</u>	<u>\$ -</u>	<u>\$ 94,540</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 329,108</u>
<u>\$ 36,746</u>	<u>\$ 3,327</u>	<u>\$ 25</u>	<u>\$ (42,740)</u>	<u>\$ 2,400</u>	<u>\$ -</u>	<u>\$ 208,661</u>
\$ -	\$ -	\$ -	\$ 93,000	\$ -	\$ -	\$ 93,000
-	-	-	-	-	-	4,601
-	(600)	(6,671)	-	-	-	(194,339)
<u>\$ -</u>	<u>\$ (600)</u>	<u>\$ (6,671)</u>	<u>\$ 93,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (96,738)</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, 2006

Schedule 1

	Special Revenue			
	Police and Fire Retirement	Emergency	Urban Renewal Tax Increment	McKinley Park
NET CHANGE IN CASH BALANCE	\$ (13,962)	\$ -	\$ (25,754)	\$ 66,152
CASH BALANCES, BEGINNING OF YEAR	36,061	-	73,815	-
CASH BALANCES, END OF YEAR	\$ 22,099	\$ -	\$ 48,061	\$ 66,152
CASH BASIS FUND BALANCES:				
Reserve:				
Debt service	\$ -	\$ -	\$ -	\$ -
Unreserved:				
General fund	-	-	-	-
Special revenue funds	22,099	-	48,061	66,152
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 22,099	\$ -	\$ 48,061	\$ 66,152

See accompanying independent auditor's report.

<u>Special Revenue</u>				<u>Permanent</u>		
<u>Skate Park</u>	<u>Library Building</u>	<u>Cemetery Betterment</u>	<u>Capital Projects</u>	<u>Cemetery Perpetual Care</u>	<u>Cemetery Perpetual Decoration</u>	<u>Total</u>
\$ 36,746	\$ 2,727	\$ (6,646)	\$ 50,260	\$ 2,400	\$ -	\$ 111,923
<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>
<u>\$ 66,141</u>	<u>\$ 97,577</u>	<u>\$ (10)</u>	<u>\$ 51,913</u>	<u>\$ 189,451</u>	<u>\$ 22,787</u>	<u>\$ 564,171</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
66,141	97,577	(10)	-	-	-	300,020
-	-	-	51,913	-	-	51,913
-	-	-	-	189,451	22,787	212,238
<u>\$ 66,141</u>	<u>\$ 97,577</u>	<u>\$ (10)</u>	<u>\$ 51,913</u>	<u>\$ 189,451</u>	<u>\$ 22,787</u>	<u>\$ 564,171</u>

CITY OF CRESTON, IOWA  
 SCHEDULE OF INDEBTEDNESS  
 Year Ended June 30, 2006

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>
Schedule 2			
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
Refunding notes	August 15, 2005	3.25-4.20%	1,720,000
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	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
Park maintenance building	July 22, 2005	3.65%	93,000
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>
<u>\$ 2,015,000</u>	<u>\$ -</u>	<u>\$ 110,000</u>	<u>\$ 1,905,000</u>	<u>\$ 97,945</u>	<u>\$ -</u>
<u><u>\$ 2,015,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 110,000</u></u>	<u><u>\$ 1,905,000</u></u>	<u><u>\$ 97,945</u></u>	<u><u>\$ -</u></u>
<u>\$ 585,000</u>	<u>\$ -</u>	<u>\$ 300,000</u>	<u>\$ 285,000</u>	<u>\$ 14,745</u>	<u>\$ -</u>
<u>-</u>	<u>1,720,000</u>	<u>-</u>	<u>1,720,000</u>	<u>51,383</u>	<u>-</u>
<u><u>\$ 585,000</u></u>	<u><u>\$ 1,720,000</u></u>	<u><u>\$ 300,000</u></u>	<u><u>\$ 2,005,000</u></u>	<u><u>\$ 66,128</u></u>	<u><u>\$ -</u></u>
<u>\$ 494,000</u>	<u>\$ -</u>	<u>\$ 40,000</u>	<u>\$ 454,000</u>	<u>\$ 18,624</u>	<u>\$ -</u>
<u>1,673,000</u>	<u>-</u>	<u>108,000</u>	<u>1,565,000</u>	<u>75,954</u>	<u>-</u>
<u>611,000</u>	<u>-</u>	<u>36,000</u>	<u>575,000</u>	<u>25,845</u>	<u>-</u>
<u>10,000</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>450</u>	<u>-</u>
<u>61,480</u>	<u>-</u>	<u>61,480</u>	<u>-</u>	<u>3,538</u>	<u>-</u>
<u>40,000</u>	<u>-</u>	<u>10,000</u>	<u>30,000</u>	<u>1,500</u>	<u>-</u>
<u>314,410</u>	<u>-</u>	<u>-</u>	<u>314,410</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>93,000</u>	<u>18,600</u>	<u>74,400</u>	<u>2,920</u>	<u>-</u>
<u><u>\$ 3,203,890</u></u>	<u><u>\$ 93,000</u></u>	<u><u>\$ 284,080</u></u>	<u><u>\$ 3,012,810</u></u>	<u><u>\$ 128,831</u></u>	<u><u>\$ -</u></u>

CITY OF CRESTON, IOWA  
 BOND AND OTHER DEBT MATURITIES  
 JUNE 30, 2006

Schedule 3

Year Ending June 30,	General Obligation Capital Loan Notes				Total General Obligation Capital Loan Notes
	Refunding Notes		Refunding Notes		
	Issued March 1, 2003		Issued August 15, 2005		
	Interest Rates	Amount	Interest Rates	Amount	
2007	2.60	\$ 140,000	---	\$ -	\$ 140,000
2008	2.90	145,000	---	-	145,000
2009	---	-	3.25	130,000	130,000
2010	---	-	3.35	135,000	135,000
2011	---	-	3.45	140,000	140,000
2012	---	-	3.55	145,000	145,000
2013	---	-	3.65	150,000	150,000
2014	---	-	3.75	155,000	155,000
2015	---	-	3.80	160,000	160,000
2016	---	-	3.90	165,000	165,000
2017	---	-	4.00	175,000	175,000
2018	---	-	4.10	180,000	180,000
2019	---	-	4.20	185,000	185,000
Total		<u>\$ 285,000</u>		<u>\$ 1,720,000</u>	<u>\$ 2,005,000</u>

Year Ending June 30,	Other Debt			
	State Revolving Funds Loan		State Revolving Funds Loan	
	Dated November 7, 1995		Dated June 10, 1997	
	Interest Rates	Amount	Interest Rates	Amount
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>\$ 454,000</u>		<u>\$ 1,565,000</u>

See accompanying independent auditor's report.

<u>General Obligation Bonds</u> General Purpose Issued May 18, 1999		<u>Other Debt</u> State Revolving Funds Loan Dated March 20, 1998	
<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
5.50	\$ 110,000	4.23	\$ 38,000
4.55	115,000	4.23	39,000
4.50	120,000	4.23	41,000
4.60	125,000	4.23	43,000
4.70	130,000	4.23	45,000
4.75	140,000	4.23	47,000
4.80	145,000	4.23	48,000
4.85	150,000	4.23	51,000
4.85	160,000	4.23	53,000
4.85	165,000	4.23	55,000
4.90	175,000	4.23	57,000
4.90	180,000	4.23	58,000
4.90	190,000	---	-
	<u>\$ 1,905,000</u>		<u>\$ 575,000</u>

Other Debt

<u>Park Maintenance Building</u>		<u>Equipment Loan</u>		<u>Highway 34/25 Improvements</u>		<u>Total Other Debt</u>
<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	
3.65	\$ 18,600	3.75	\$ 10,000	---	\$ 104,803	\$ 326,403
3.65	18,600	3.75	10,000	---	104,803	334,403
3.65	18,600	3.75	10,000	---	104,804	343,404
3.65	18,600	---	-	---	-	238,600
---	-	---	-	---	-	230,000
---	-	---	-	---	-	240,000
---	-	---	-	---	-	250,000
---	-	---	-	---	-	262,000
---	-	---	-	---	-	274,000
---	-	---	-	---	-	223,000
---	-	---	-	---	-	233,000
---	-	---	-	---	-	58,000
	<u>\$ 74,400</u>		<u>\$ 30,000</u>		<u>\$ 314,410</u>	<u>\$ 3,012,810</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>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
RECEIPTS:				
Property tax	\$ 2,347,714	\$ 2,406,504	\$ 2,483,369	\$ 2,338,422
Tax incremental financing collections	123,798	125,512	164,306	149,708
Other city tax	642,641	90,754	80,447	13,285
Licenses and permits	83,496	58,863	46,038	30,384
Uses of money and property	178,858	67,787	92,390	79,576
Intergovernmental	1,714,568	1,701,605	1,402,099	1,272,239
Charges for services	631,690	636,413	529,473	473,254
Special assessments	770	768	768	-
Miscellaneous	273,672	255,315	251,883	199,765
TOTAL	<u>\$ 5,997,207</u>	<u>\$ 5,343,521</u>	<u>\$ 5,050,773</u>	<u>\$ 4,556,633</u>
DISBURSEMENTS:				
Operating:				
Public safety	\$ 1,382,540	\$ 1,284,193	\$ 1,357,093	\$ 1,217,445
Public works	1,242,654	1,376,244	1,151,227	1,065,402
Health and social services	-	-	-	-
Culture and recreation	475,808	440,350	364,896	422,770
Community and economic development	36,840	29,966	26,770	26,827
General government	1,859,588	817,126	1,058,487	1,105,507
Debt service	987,032	1,022,485	1,083,828	2,369,043
Capital projects	94,540	397,048	102,172	100,868
TOTAL	<u>\$ 6,079,002</u>	<u>\$ 5,367,412</u>	<u>\$ 5,144,473</u>	<u>\$ 6,307,862</u>

See accompanying independent auditor's report.

CITY OF CRESTON, IOWA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2006

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>\$ 25,798</u>
United States Department of Housing and Urban Development: Passed through Iowa Department of Economic Development: Community Development Block Grant	14.219	<u>\$ 501,175</u>
United States Department of Transportation: Passed through Iowa Department of Transportation: Highway Planning and Construction	20.205	\$ 5,000
Airport Improvement Program	20.106	<u>1,242</u>
		<u>\$ 6,242</u>
Passed through Iowa Department of Public Safety: State incentive grants for use of seat belts	20.604	<u>\$ 382</u>
Total Federal Expenditures		<u><u>\$ 533,597</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, 2006

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, 2006, and have issued our report thereon dated August 11, 2006. 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.

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.

## Compliance and Other Matters

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, 2006, 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.

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 11, 2006

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, 2006. 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, 2006.

## 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, 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, Mikkelsen + Co., P.C.*

August 11, 2006

CITY OF CRESTON, IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2006

PART I: SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS

- a. Unqualified opinions were issued on the financial statements which 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.
- 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 14.219 – Community Development Block 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

- 2006-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, 2006

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:

2006-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 2006-II-A.

PART IV: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

2006-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, 2006

- 2006-IV-2      Certified Budget: Disbursements during the year ended June 30, 2006, exceeded the amounts budgeted in the General Government and Capital Projects Function prior to the budget amendment and in the Public Safety, Community and Economic Development and General Government 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.
- 2006-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.
- 2006-IV-4      Travel Expense: No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.
- 2006-IV-5      Business Transactions: There were no business transactions noted between the City and City officials and/or employees.
- 2006-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.
- 2006-IV-7      Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, the published minutes included the list of claims, however the listing did not include the general nature of the purchase in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation: The City should comply with the publication requirements for the publication of the City Council minutes and included information.

Response: The City is taking steps to comply with the publication requirement.

Conclusion: Response acknowledged.

2006IV-8

Revenue Bonds: The City does not have revenue bonds, only general obligation bonds.

2006-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.