

CITY OF CRESTON, IOWA

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

Year Ended June 30, 2007

CITY OF CRESTON, IOWA
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CITY OF CRESTON, IOWA
CITY OFFICIALS
June 30, 2007

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mike Tamerius	Mayor	January 1, 2008
Lois Monday	Council Member	January 1, 2008
Larry Wagner	Council Member	January 1, 2010
Randy White	Council Member	January 1, 2010
Terri Koets	Council Member	January 1, 2010
Richard Madison	Council Member	January 1, 2008
Betty Shelton	Council Member	January 1, 2010
Marsha Wilson	Council Member	January 1, 2008
Michael Taylor	City Administrator	---
Lisa Williamson	City Clerk	January 1, 2008
Arnold O. Kenyon, III	City Attorney	January 1, 2008

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, 2007, 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, 2007, 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 October 29, 2007, 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, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 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.

October 29, 2007

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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Financial Highlights

Government Activities total revenues decreased by \$62,884 from the previous fiscal year. Other City Taxes, Licenses and Permits, Use of Money and Property, Charges for Services and Miscellaneous Revenues all increased. Other City Taxes continues to increase due to the imposition of the one-cent Local Option Sales Tax.

Government Activities total expenditures decreased by \$447,316. Public Works and Culture and Recreation increased, while all other program areas showed a decrease in expenditures. Public Works increased by \$181,854. The Culture and Recreation activity increased by \$98,616.

The City's total cash basis net assets increased by \$1,040,781. The Employee Benefits Fund had a decrease of \$124,825, that was planned. The Debt Service Fund showed a modest gain of \$78,852. The Road Use Fund showed an increase of \$102,249, as weather prevented some projects and other non-Governmental Funds increased by \$330,586. The Road Use Fund continues to receive some financial assistance, as does 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 \$849,821, 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 \$794,464. 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 that 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 fewer 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 \$1,040,781. 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>2007</u>	<u>2006</u>
Receipts and transfers:		
Program receipts:		
Charges for services and sales	\$ 636,366	\$ 631,690
Intergovernmental revenues	1,443,949	1,714,568
General receipts:		
Property tax	1,751,774	2,347,714
Tax incremental financing collections	257,088	123,798
Other city tax	958,901	642,641
Licenses and permits	84,004	83,496
Use of money and property	272,066	178,858
Bond and short term debt proceeds	400,000	1,777,631
Other general receipts	530,175	274,442
Transfers-in	<u>1,376,937</u>	<u>1,221,204</u>
 Total receipts and transfers	 <u>\$7,711,260</u>	 <u>\$8,996,042</u>
 Disbursements:		
Public safety	\$1,329,216	\$1,382,540
Public works	1,424,508	1,242,654
Health and social services	---	---
Culture and recreation	574,424	475,808
Community and economic development	22,051	36,840
General government	1,525,619	1,859,588
Debt service	748,852	987,032
Capital projects	7,016	94,540
Transfers-out	<u>1,038,793</u>	<u>667,259</u>
 Total disbursements and transfers	 <u>\$6,670,479</u>	 <u>\$6,746,261</u>
 Increase in cash balance	 \$1,040,781	 \$2,249,781
 Cash balance, beginning of fiscal year	 <u>4,371,448</u>	 <u>2,121,667</u>
 Cash balance, end of fiscal year	 <u>\$5,412,229</u>	 <u>\$4,371,448</u>

The City's total receipts for governmental activities decreased by one percent (1%) or \$62,884. The total cost of all programs and services decreased by approximately seven percent (7%) or \$447,316 with no new programs added this year. The decrease in receipts was due to reduced tax asking. The decrease in expenditures was due primarily to reduction in general government and debt service.

The City decreased the property tax rates in 2007 by approximately twenty-eight percent (28%). 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 increase in L.O.S.T. Property tax receipts are expected to decrease in the next fiscal year due to a lower tax rate and the use of fund balances. The property tax rate is expected to decrease by five percent (5%) for the 2008 fiscal year.

The cost of all governmental activities this year was \$6,670,479 compared to \$6,746,261 last year. The General Fund showed a slight loss of \$484,196 from the previous fiscal year.

Business Type Activities

	<u>2007</u>	<u>2006</u>
Receipts		
Program receipts:		
Charges for services and sales	\$1,049,656	\$ 997,032
Miscellaneous revenues	400	1,613
Transfers in	<u>198,477</u>	<u>86,005</u>
Total revenues	<u>\$1,248,533</u>	<u>\$1,084,650</u>
Disbursements and transfers:		
Personal services	\$ 203,010	\$ 198,163
Services and commodities	176,320	171,532
Capital outlay	195,221	80,172
Transfers out	<u>536,621</u>	<u>639,951</u>
Total disbursements and transfers	<u>\$1,111,172</u>	<u>\$1,089,818</u>
Increase (decrease) in cash balance	\$ 137,361	\$ (5,168)
Cash balance, beginning of fiscal year	<u>521,574</u>	<u>526,742</u>
Cash balance, end of fiscal year	<u>\$ 658,935</u>	<u>\$ 521,574</u>

Total business-type activity receipts for the fiscal year were \$1,248,533 compared to \$1,084,650 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 increased by approximately \$137,361 because of a reduction in transfers out.

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 \$1,350,291, an increase of \$484,196.

The Road Use Tax Fund cash balance increased from \$49,000 to \$151,249, during the fiscal year. The fund achieved an increase due to the funding from the Local Option Sales Taxes and poor weather prevented several projects from being 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 reduction of \$124,825 during the fiscal year. This was an intentional draw down on the fund balance.

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 \$7,084 in property taxes and transferred \$755,971 from other funds to make payments for these obligations. The fund showed a gain of \$78,852 for the fiscal year just completed and has a fund balance of \$1,840,486. 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 and second 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 \$101,127.

Proprietary Funds

The cash balance of the Sewer Fund increased by \$137,361. 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. 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 29, 2007 and resulted in an increase in operating disbursements related to a budget overrun of \$1,035,523 in various departmental budgets due primarily to sewer repair projects, purchase of capital equipment and maintenance and utility charges. The amendment also included a projected increase in revenue of \$733,999 primarily consists of receipt of short-term loan funds.

Even with this amendment, the City exceeded the budget for the Capital Projects and Business-type activities areas.

Debt Administration

At year-end, the City had approximately \$6,851,210 in bonds and other long-term debt compared to \$6,922,810 last year as shown below.

Outstanding Debt at Year End

	<u>2007</u>	<u>2006</u>
General obligation bonds	\$1,795,000	\$1,905,000
Capital loan notes – refunding notes	145,000	285,000
Refunding bond – GO bonds callable in June 1, 2008	1,720,000	1,720,000
State revolving fund wastewater bonds	2,401,000	2,594,000
Fire truck loan	20,000	30,000
Iowa Department of Transportation – no interest loan	314,410	314,410
Park maintenance building loan	55,800	74,400
Anticipation capital loan notes	<u>400,000</u>	<u>---</u>
Total	<u>\$6,851,210</u>	<u>\$6,922,810</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 for the fiscal year ending June 30, 2008 was zero as Local Option Sales Tax receipts were used for property tax relief and eliminated this tax. The City sold a bond issue during 2007 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 2008. 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. The estimate for the city share of the Highway 34 improvements is \$2,315,752. 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 Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to five percent (5%) of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,735,800 is well below the City's \$13,033,755 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 2008 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 2008 budget. Amounts available for appropriations in the budget are \$17,017,682. 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 2007 budget. The property tax rate of \$11.02059 for the fiscal year ending June 30, 2008 is a 5.5% 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 Michael A. Taylor, 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, 2007

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	\$ 1,329,216	\$ 226,938	\$ 57,518	\$ -
Public works	1,424,507	555,018	635,331	206,224
Health and social services	-	-	-	-
Culture and recreation	499,801	225,868	239,365	-
Community/economic development	22,051	-	-	-
General government	1,525,620	267,157	129,613	-
Debt service	748,852	-	-	-
Capital projects	7,016	-	-	-
Total governmental activities	<u>\$ 5,557,063</u>	<u>\$ 1,274,981</u>	<u>\$ 1,061,827</u>	<u>\$ 206,224</u>
Business type activities:				
Sewer	<u>\$ 574,551</u>	<u>\$ 1,050,056</u>	<u>\$ -</u>	<u>\$ -</u>
Total business type activities	<u>\$ 574,551</u>	<u>\$ 1,050,056</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL PRIMARY GOVERNMENT	<u><u>\$ 6,131,614</u></u>	<u><u>\$ 2,325,037</u></u>	<u><u>\$ 1,061,827</u></u>	<u><u>\$ 206,224</u></u>
COMPONENT UNIT:				
Water Works	<u><u>\$ 3,653,879</u></u>	<u><u>\$ 3,416,144</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
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
\$ (1,044,760)	\$ -	\$ (1,044,760)	\$ -
(27,934)	-	(27,934)	-
-	-	-	-
(34,568)	-	(34,568)	-
(22,051)	-	(22,051)	-
(1,128,850)	-	(1,128,850)	-
(748,852)	-	(748,852)	-
(7,016)	-	(7,016)	-
<u>\$ (3,014,031)</u>	<u>\$ -</u>	<u>\$ (3,014,031)</u>	<u>\$ -</u>
\$ -	\$ 475,505	\$ 475,505	\$ -
\$ -	\$ 475,505	\$ 475,505	\$ -
<u>\$ (3,014,031)</u>	<u>\$ 475,505</u>	<u>\$ (2,538,526)</u>	<u>\$ -</u>
			<u>\$ (237,735)</u>
\$ 1,745,813	\$ -	\$ 1,745,813	\$ -
257,088	-	257,088	-
7,084	-	7,084	-
109,080	-	109,080	-
849,821	-	849,821	-
10,382	-	10,382	-
222,414	-	222,414	146,462
400,000	-	400,000	-
87,446	-	87,446	108,330
27,540	-	27,540	-
338,144	(338,144)	-	-
<u>\$ 4,054,812</u>	<u>\$ (338,144)</u>	<u>\$ 3,716,668</u>	<u>\$ 254,792</u>
\$ 1,040,781	\$ 137,361	\$ 1,178,142	\$ 17,057
4,371,448	521,574	4,893,022	3,253,014
<u>\$ 5,412,229</u>	<u>\$ 658,935</u>	<u>\$ 6,071,164</u>	<u>\$ 3,270,071</u>
\$ 151,249	\$ -	\$ 151,249	
721,803	-	721,803	
453,643	-	453,643	
1,840,486	-	1,840,486	
894,757	565,862	1,460,619	
1,350,291	93,073	1,443,364	
<u>\$ 5,412,229</u>	<u>\$ 658,935</u>	<u>\$ 6,071,164</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, 2007

Exhibit B

	SPECIAL REVENUE		
	General	Road Use Tax	Employee Benefits
RECEIPTS:			
Property taxes	\$ 1,294,511	\$ -	\$ 219,417
Tax increment financing collections	-	-	-
Other city taxes	109,080	-	-
Licenses and permits	84,004	-	-
Use of money and property	199,966	-	-
Intergovernmental	564,173	633,171	156,605
Charges for service	630,963	5,403	-
Special assessments	1,123	-	-
Miscellaneous	101,588	5,882	99,905
Total receipts	\$ 2,985,408	\$ 644,456	\$ 475,927
DISBURSEMENTS:			
Operating:			
Public safety	\$ 1,126,705	\$ -	\$ -
Public works	831,312	593,196	-
Health and social services	-	-	-
Culture and recreation	451,088	-	-
Community/economic development	22,051	-	-
General government	738,783	-	786,836
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	\$ 3,169,939	\$ 593,196	\$ 786,836
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ (184,531)	\$ 51,260	\$ (310,909)
OTHER FINANCING SOURCES (USES):			
Short term note proceeds	\$ 400,000	\$ -	\$ -
Operating transfers in	292,504	139,917	186,084
Operating transfers out	(23,777)	(88,928)	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ 668,727	\$ 50,989	\$ 186,084
NET CHANGE IN CASH BALANCES	\$ 484,196	\$ 102,249	\$ (124,825)
CASH BALANCES, BEGINNING OF YEAR	866,095	49,000	846,628
CASH BALANCES, END OF YEAR	\$ 1,350,291	\$ 151,249	\$ 721,803
CASH BASIS FUND BALANCES:			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	1,350,291	-	-
Special revenue funds	-	151,249	721,803
Capital projects fund	-	-	-
Permanent fund	-	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 1,350,291	\$ 151,249	\$ 721,803

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>
\$ -	\$ 7,084	\$ 230,762	\$ 1,751,774
-	-	257,088	257,088
849,821	-	-	958,901
-	-	-	84,004
-	64,649	7,451	272,066
-	-	90,000	1,443,949
-	-	-	636,366
-	-	-	1,123
-	-	321,677	529,052
<u>\$ 849,821</u>	<u>\$ 71,733</u>	<u>\$ 906,978</u>	<u>\$ 5,934,323</u>
\$ -	\$ -	\$ 202,511	\$ 1,329,216
-	-	-	1,424,508
-	-	-	-
-	-	123,336	574,424
-	-	-	22,051
-	-	-	1,525,619
-	748,852	-	748,852
-	-	7,016	7,016
<u>\$ -</u>	<u>\$ 748,852</u>	<u>\$ 332,863</u>	<u>\$ 5,631,686</u>
<u>\$ 849,821</u>	<u>\$ (677,119)</u>	<u>\$ 574,115</u>	<u>\$ 302,637</u>
\$ -	\$ -	\$ -	\$ 400,000
-	755,971	2,461	1,376,937
<u>(680,098)</u>	-	<u>(245,990)</u>	<u>(1,038,793)</u>
<u>\$ (680,098)</u>	<u>\$ 755,971</u>	<u>\$ (243,529)</u>	<u>\$ 738,144</u>
\$ 169,723	\$ 78,852	\$ 330,586	\$ 1,040,781
283,920	1,761,634	564,171	4,371,448
<u>\$ 453,643</u>	<u>\$ 1,840,486</u>	<u>\$ 894,757</u>	<u>\$ 5,412,229</u>
\$ -	\$ 1,840,486	\$ -	\$ 1,840,486
-	-	-	1,350,291
453,643	-	635,462	1,962,157
-	-	44,897	44,897
-	-	214,398	214,398
<u>\$ 453,643</u>	<u>\$ 1,840,486</u>	<u>\$ 894,757</u>	<u>\$ 5,412,229</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, 2007

	Exhibit C
	Enterprise Fund
	Sewer
OPERATING RECEIPTS:	
Charge for service	\$ 1,049,656
Total operating receipts	\$ 1,049,656
OPERATING DISBURSEMENTS:	
Business type activities	\$ 574,551
Total operating disbursements	\$ 574,551
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	\$ 475,105
NON-OPERATING RECEIPTS (DISBURSEMENTS):	
Interest on investments	\$ -
Miscellaneous	400
Debt service	-
Total non-operating receipts (disbursements)	\$ 400
EXCESS OF RECEIPTS OVER DISBURSEMENTS	\$ 475,505
OTHER FINANCING SOURCES (USES):	
Operating transfers in	\$ 198,477
Operating transfers out	(536,621)
Total other financing sources (uses)	\$ (338,144)
NET CHANGE IN CASH BALANCES	\$ 137,361
CASH BALANCES, BEGINNING OF YEAR	521,574
CASH BALANCES, END OF YEAR	\$ 658,935
CASH BASIS FUND BALANCES:	
Reserved for debt service	\$ -
Reserved for capital replacement	505,822
Reserved for storm water	60,040
Unreserved	93,073
Total cash basis fund balances	\$ 658,935

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

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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, 2007

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, 2007

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, 2007

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, 2007, disbursements exceeded the amounts budgeted in the culture and recreation, general government, capital projects, and business type activities functions prior to amendment and in the capital projects and business type activities functions after amendments.

Note 2. Deposits and Investments

The City's deposits at June 30, 2007, 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, 2007, 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, 2007

Note 3. Bonds Payable and Other Debt (continued)

Principal				
Year Ending	General	General	Other	Total
June 30,	Obligation	Obligation	Debt	
	Bonds	Capital		
		Loan Notes		
2008	\$ 115,000	\$ 145,000	\$ 334,403	\$ 594,403
2009	120,000	130,000	343,404	593,404
2010	125,000	135,000	343,403	603,403
2011	130,000	140,000	230,000	500,000
2012	140,000	145,000	240,000	525,000
2013-2017	795,000	805,000	1,242,000	2,842,000
2018-2019	370,000	365,000	58,000	793,000
	<u>\$1,795,000</u>	<u>\$1,865,000</u>	<u>\$2,791,210</u>	<u>\$6,451,210</u>

Interest				
Year Ending	General	General	Other	Total
June 30,	Obligation	Obligation	Debt	
	Bonds	Capital		
		Loan Notes		
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	63,352	51,100	68,773	183,225
2013-2017	210,326	171,831	175,591	557,748
2018-2019	27,440	22,920	2,453	52,813
	<u>\$ 612,250</u>	<u>\$ 495,795</u>	<u>\$ 625,702</u>	<u>\$1,733,747</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, 2007

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, 2007 is \$412,000. 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, 2007, is \$1,452,000. 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, 2007, is \$537,000. The loan bears interest at 4.23% and interest payments are due June 1 and December 1. Principal payments are due June 1.

On 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, 2007 is \$20,000.

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 3. Bonds Payable and Other Debt (continued)

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, 2008.

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, 2007 is \$55,800.

On May 31, 2007, the City issued general obligation capital loan notes anticipation project notes in the amount of \$400,000. The notes bear interest at 4.10% to be paid a maturity and the notes have a maturity date of May 1, 2008. The balance of the notes at June 30, 2007 is \$400,000.

Note 4. Pension and Retirement Benefits

MFPRSI

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

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 28.21% of earnable compensation. Contribution requirements are established by State statute. The City's contribution to the Plan for the years ended June 30, 2007, 2006, and 2005 was \$198,794, \$194,992, and \$151,555 respectively, which met the required minimum contribution for each year.

CITY OF CRESTON, IOWA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

Note 4. Pension and Retirement Benefit (continued)

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, 2007, 2006, and 2005 was \$55,108, \$56,096, and \$49,888 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, 2007, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 143,323
Sick leave	<u>377,899</u>
Total	<u>\$ 521,222</u>

This liability has been computed based on rates of pay as of June 30, 2007.

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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 \$1,025,906 for sewer rental and \$469,257 for garbage collections from the Water Works for the year ended June 30, 2007. The City paid the Water Works \$4,710 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, 2007, the Water Works reimbursed the City \$58,714.

As of June 30, 2007, the Water Works owes the following to the City of Creston:

Sewer rental	\$ 137,676
Garbage collections	<u>55,043</u>
	<u>\$ 192,719</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, 2007, the City was reimbursed \$156,605 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, 2007.

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, 2007.

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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, 2008, for \$32,500. The contractor is responsible for all maintenance, upkeep and repairs of the airport and has the option of operating as a fixed based operator. The City is responsible for providing for utilities for the runway lighting, taxiing, lighted windsock, rotating light beacon, and radio homing beacon and for all parts and repairs necessary for these items. The agreement is for a period of one year.

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:

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 9. Jointly Governed Organizations (continued)

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, 2007, is as follows:

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special Revenue: Emergency Local option sales tax Enterprise: Sewer	\$ 38,706 116,614 <u>137,184</u> <u>\$ 292,504</u>
Debt service	General Special revenue: Urban renewal tax increment Local option sales tax Enterprise: Sewer	\$ 21,316 207,284 225,090 <u>302,281</u> <u>\$ 755,971</u>
Special revenue: Skate Park	General	 <u>\$ 2,461</u>
Employee benefits	Enterprise: Sewer Special revenue: Road use	 \$ 97,156 <u>88,928</u> <u>\$ 186,084</u>
Road use	Special revenue: Local option sales tax	 <u>\$ 139,917</u>

CITY OF CRESTON, IOWA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

Note 10. Interfund Transfers (continued)

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
Enterprise: Sewer	Special revenue: Local option sales tax	<u>\$ 198,477</u>
Total		<u>\$1,575,414</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. Operating Lease

The City has entered into an operating lease with a company for copier equipment for the City. The lease is for 60 months beginning on October 23, 2006. Minimum future lease payments are as follows:

<u>Year ending</u> <u>June 30,</u>	
2008	\$3,908
2009	3,908
2010	3,908
2011	3,908
2012	977

Note 12. Litigation

The City is a party to pending litigation along with a contractor as a result of damage to a local business building that was damaged during the demolition by the contractor of a neighboring building that the City had declared to be a nuisance. 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. However, the City's liability should be limited as the City had no involvement in the damage to the building.

Note 13. Subsequent Events

In August 2007, the City approved the purchase of land for a cost of \$290,000 and the City also approved the issuance of \$295,000 general obligation capital loan notes.

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, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Net
RECEIPTS:			
Property tax	\$ 1,751,774	\$ -	\$ 1,751,774
Tax increment financing collections	257,088	-	257,088
Other city tax	958,901	-	958,901
Licenses and permits	84,004	-	84,004
Use of money and property	272,066	-	272,066
Intergovernmental	1,443,949	-	1,443,949
Charges for service	636,366	1,049,656	1,686,022
Special assessments	1,123	-	1,123
Miscellaneous	529,052	400	529,452
TOTAL RECEIPTS	<u>\$ 5,934,323</u>	<u>\$ 1,050,056</u>	<u>\$ 6,984,379</u>
DISBURSEMENTS:			
Public safety	\$ 1,329,216	\$ -	\$ 1,329,216
Public works	1,424,508	-	1,424,508
Health and social services	-	-	-
Culture and recreation	574,424	-	574,424
Community and economic development	22,051	-	22,051
General government	1,525,619	-	1,525,619
Debt service	748,852	-	748,852
Capital projects	7,016	-	7,016
Business type activities	-	574,551	574,551
TOTAL DISBURSEMENTS	<u>\$ 5,631,686</u>	<u>\$ 574,551</u>	<u>\$ 6,206,237</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ 302,637	\$ 475,505	\$ 778,142
OTHER FINANCING SOURCES, NET	<u>738,144</u>	<u>(338,144)</u>	<u>400,000</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	\$ 1,040,781	\$ 137,361	\$ 1,178,142
BALANCE, BEGINNING OF YEAR	<u>4,371,448</u>	<u>521,574</u>	<u>4,893,022</u>
BALANCE, END OF YEAR	<u><u>\$ 5,412,229</u></u>	<u><u>\$ 658,935</u></u>	<u><u>\$ 6,071,164</u></u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net
		Variance
\$ 1,588,417	\$ 1,588,417	\$ 163,357
287,700	287,700	(30,612)
842,976	842,976	115,925
39,547	39,547	44,457
61,483	146,613	125,453
1,124,083	1,260,952	182,997
1,718,719	1,718,719	(32,697)
-	-	1,123
68,475	180,475	348,977
<u>\$ 5,731,400</u>	<u>\$ 6,065,399</u>	<u>\$ 918,980</u>
\$ 1,279,679	\$ 1,514,679	\$ 185,463
1,443,656	1,563,656	139,148
-	-	-
433,723	583,723	9,299
23,800	23,800	1,749
1,195,067	1,720,067	194,448
795,971	795,971	47,119
-	5,523	(1,493)
491,872	491,872	(82,679)
<u>\$ 5,663,768</u>	<u>\$ 6,699,291</u>	<u>\$ 493,054</u>
\$ 67,632	\$ (633,892)	\$ 1,412,034
-	400,000	-
\$ 67,632	\$ (233,892)	<u>\$ 1,412,034</u>
<u>6,211,599</u>	<u>6,211,599</u>	
<u>\$ 6,279,231</u>	<u>\$ 5,977,707</u>	

CITY OF CRESTON, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2007

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 \$1,035,523. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the capital projects and business type activities functions and in the culture and recreation, general government, capital projects and business type activities 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, 2007

Schedule 1

	Special Revenue			
	Police and Fire Retirement	Emergency	Urban Renewal Tax Increment	McKinley Park
RECEIPTS:				
Property tax	\$ 192,056	\$ 38,706	\$ -	\$ -
Tax increment financing collections	-	-	257,088	-
Other city tax	-	-	-	-
Licenses and permits	-	-	-	-
Uses of money and property	-	-	-	417
Intergovernmental	-	-	-	90,000
Charges for services	-	-	-	-
Special assessments	-	-	-	-
Miscellaneous	-	-	-	114,584
TOTAL RECEIPTS	\$ 192,056	\$ 38,706	\$ 257,088	\$ 205,001
DISBURSEMENTS:				
Operating:				
Public safety	\$ 202,511	\$ -	\$ -	\$ -
Public works	-	-	-	-
Health and social services	-	-	-	-
Culture and recreation	-	-	5,000	77,187
Community and economic development	-	-	-	-
General government	-	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
TOTAL DISBURSEMENTS	\$ 202,511	\$ -	\$ 5,000	\$ 77,187
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ (10,455)	\$ 38,706	\$ 252,088	\$ 127,814
OTHER FINANCING SOURCES (USES):				
Short term note proceeds	\$ -	\$ -	\$ -	\$ -
Operating transfers in	-	-	-	-
Operating transfers out	-	(38,706)	(207,284)	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ -	\$ (38,706)	\$ (207,284)	\$ -

See accompanying independent auditor's report.

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, 2007

Schedule 1

	Special Revenue			
	Police and Fire Retirement	Emergency	Urban Renewal Tax Increment	McKinley Park
NET CHANGE IN CASH BALANCE	\$ (10,455)	\$ -	\$ 44,804	\$ 127,814
CASH BALANCES, BEGINNING OF YEAR	<u>22,099</u>	<u>-</u>	<u>48,061</u>	<u>66,152</u>
CASH BALANCES, END OF YEAR	<u>\$ 11,644</u>	<u>\$ -</u>	<u>\$ 92,865</u>	<u>\$ 193,966</u>
CASH BASIS FUND BALANCES:				
Reserve:				
Debt service	\$ -	\$ -	\$ -	\$ -
Unreserved:				
General fund	-	-	-	-
Special revenue funds	11,644	-	92,865	193,966
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
TOTAL CASH BASIS FUND BALANCES	<u>\$ 11,644</u>	<u>\$ -</u>	<u>\$ 92,865</u>	<u>\$ 193,966</u>

See accompanying independent auditor's report.

Special Revenue			Permanent			Total
Skate Park	Library Building	Cemetery Betterment	Capital Projects	Cemetery Perpetual Care	Cemetery Perpetual Decoration	
\$ 172,699	\$ 580	\$ -	\$ (7,016)	\$ 2,160	\$ -	\$ 330,586
<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>
<u>\$ 238,840</u>	<u>\$ 98,157</u>	<u>\$ (10)</u>	<u>\$ 44,897</u>	<u>\$ 191,611</u>	<u>\$ 22,787</u>	<u>\$ 894,757</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
238,840	98,157	(10)	-	-	-	635,462
-	-	-	44,897	-	-	44,897
-	-	-	-	191,611	22,787	214,398
<u>\$ 238,840</u>	<u>\$ 98,157</u>	<u>\$ (10)</u>	<u>\$ 44,897</u>	<u>\$ 191,611</u>	<u>\$ 22,787</u>	<u>\$ 894,757</u>

CITY OF CRESTON, IOWA
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2007

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
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
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			
Anticipation capital loan notes	May 31, 2007	4.10%	400,000
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>
\$ 1,905,000	\$ -	\$ 110,000	\$ 1,795,000	\$ 91,896	\$ -
<u>\$ 1,905,000</u>	<u>\$ -</u>	<u>\$ 110,000</u>	<u>\$ 1,795,000</u>	<u>\$ 91,896</u>	<u>\$ -</u>
\$ 285,000	\$ -	\$ 140,000	\$ 145,000	\$ 7,845	\$ -
<u>1,720,000</u>	<u>-</u>	<u>-</u>	<u>1,720,000</u>	<u>64,678</u>	<u>-</u>
<u>\$ 2,005,000</u>	<u>\$ -</u>	<u>\$ 140,000</u>	<u>\$ 1,865,000</u>	<u>\$ 72,523</u>	<u>\$ -</u>
\$ 454,000	\$ -	\$ 42,000	\$ 412,000	\$ 13,620	\$ -
1,565,000	-	113,000	1,452,000	71,051	-
575,000	-	38,000	537,000	24,323	-
30,000	-	10,000	20,000	1,125	-
314,410	-	-	314,410	-	-
74,400	-	18,600	55,800	2,716	-
<u>\$ 3,012,810</u>	<u>\$ -</u>	<u>\$ 221,600</u>	<u>\$ 2,791,210</u>	<u>\$ 112,835</u>	<u>\$ -</u>
\$ -	\$ 400,000	\$ -	\$ 400,000	\$ -	\$ -
<u>\$ -</u>	<u>\$ 400,000</u>	<u>\$ -</u>	<u>\$ 400,000</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF CRESTON, IOWA
BOND AND OTHER DEBT MATURITIES
JUNE 30, 2007

Schedule 3

Year Ending June 30,	General Obligation Capital Loan Notes				Total General Obligation Capital Loan Notes
	Refunding Notes Issued March 1, 2003		Refunding Notes Issued August 15, 2005		
	Interest Rates	Amount	Interest Rates	Amount	
	-----	-----	-----	-----	
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>\$ 145,000</u>		<u>\$ 1,720,000</u>	<u>\$ 1,865,000</u>

Year Ending June 30,	Other Debt			
	State Revolving Funds Loan Dated November 7, 1995		State Revolving Funds Loan Dated June 10, 1997	
	Interest Rates	Amount	Interest Rates	Amount
	-----	-----	-----	-----
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>\$ 412,000</u>		<u>\$ 1,452,000</u>

See accompanying independent auditor's report.

General Obligation Bonds
General Purpose
Issued May 18, 1999

<u>Interest Rates</u>	<u>Amount</u>
4.55	\$ 115,000
4.50	120,000
4.60	125,000
4.70	130,000
4.75	140,000
4.80	145,000
4.85	150,000
4.85	160,000
4.85	165,000
4.90	175,000
4.90	180,000
4.90	190,000
	<u>\$ 1,795,000</u>

Other Debt
State Revolving
Funds Loan
Dated March 20, 1998

<u>Interest Rates</u>	<u>Amount</u>
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>\$ 537,000</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	\$ 334,403
3.65	18,600	3.75	10,000	---	104,804	343,404
3.65	18,600	---	-	---	104,803	343,403
---	-	---	-	---	-	230,000
---	-	---	-	---	-	240,000
---	-	---	-	---	-	250,000
---	-	---	-	---	-	262,000
---	-	---	-	---	-	274,000
---	-	---	-	---	-	223,000
---	-	---	-	---	-	233,000
---	-	---	-	---	-	58,000
	<u>\$ 55,800</u>		<u>\$ 20,000</u>		<u>\$ 314,410</u>	<u>\$ 2,791,210</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>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
RECEIPTS:				
Property tax	\$ 1,751,774	\$ 2,347,714	\$ 2,406,504	\$ 2,483,369
Tax incremental financing collections	257,088	123,798	125,512	164,306
Other city tax	958,901	642,641	90,754	80,447
Licenses and permits	84,004	83,496	58,863	46,038
Uses of money and property	272,066	178,858	67,787	92,390
Intergovernmental	1,443,949	1,714,568	1,701,605	1,402,099
Charges for services	636,366	631,690	636,413	529,473
Special assessments	1,123	770	768	768
Miscellaneous	529,052	273,672	255,315	251,883
TOTAL	<u>\$ 5,934,323</u>	<u>\$ 5,997,207</u>	<u>\$ 5,343,521</u>	<u>\$ 5,050,773</u>
DISBURSEMENTS:				
Operating:				
Public safety	\$ 1,329,216	\$ 1,382,540	\$ 1,284,193	\$ 1,357,093
Public works	1,424,508	1,242,654	1,376,244	1,151,227
Health and social services	-	-	-	-
Culture and recreation	574,424	475,808	440,350	364,896
Community and economic development	22,051	36,840	29,966	26,770
General government	1,525,619	1,859,588	817,126	1,058,487
Debt service	748,852	987,032	1,022,485	1,083,828
Capital projects	7,016	94,540	397,048	102,172
TOTAL	<u>\$ 5,631,686</u>	<u>\$ 6,079,002</u>	<u>\$ 5,367,412</u>	<u>\$ 5,144,473</u>

See accompanying independent auditor's report.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the government activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Creston, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City of Creston, Iowa's basic financial statements and have issued our report thereon dated October 29, 2007. 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 generally 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Creston, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Creston, Iowa's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Creston, Iowa's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Creston, Iowa's financial

statements that is more than inconsequential will not be prevented or detected by the City of Creston, Iowa's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Creston, Iowa' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Creston, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007, 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.

We noted certain matters that we reported to management of City of Creston, Iowa, in a separate letter dated October 29, 2007.

City of Creston, Iowa's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit City of Creston, Iowa's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the management, the audit committee, City Council, 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, Smidgrasso, Mickelson + Co., P.C.

October 29, 2007

CITY OF CRESTON, IOWA
SCHEDULE OF FINDINGS
Year Ended June 30, 2007

PART I: REPORTABLE CONDITIONS

2007-I-A Segregation of duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of the aspects of accounting internal controls which rely on adequate segregation of duties, for all reasonable purposes, are missing in the City.

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

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

Conclusion: Response accepted.

PART II. OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

2007-II-1 Certified Budget: Disbursements during the year ended June 30, 2007, exceeded the amounts budgeted in the Capital Projects and Business Type Activities Functions prior to the budget amendment and in the Culture and Recreation, General Government, Capital Projects, 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 the need for budget amendments on a more timely basis to ensure compliance to Chapter 384.18 of the Code of Iowa.

Conclusion: Response acknowledged.

CITY OF CRESTON, IOWA
SCHEDULE OF FINDINGS
Year Ended June 30, 2007

- 2007-II-2 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.
- 2007-II-3 Travel Expense: No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.
- 2007-II-4 Business Transactions: There were no business transactions noted between the City and City officials and/or employees.
- 2007-II-5 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-II-6 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, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.
- Recommendation: The City should comply with Chapter 21 of the Code of Iowa and should publish minutes as required.
- Response: The City acknowledges the requirement to comply with Chapter 21 of the Code of Iowa and will take measures to assure compliance.
- Conclusion: Response acknowledged.
- 2007-II-7 Revenue Bonds: The City does not have revenue bonds, only general obligation bonds.
- 2007-II-8 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.