

**CITY OF CRESCO, IOWA**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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# Officials

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| <b>Name</b>                | <b>Title</b>                              | <b>Term Expires</b> |
|----------------------------|---|---------------------|
| <b>Elected Officials</b>   |   |                     |
| (Before January, 2008)     |   |                     |
| Ronda Hughes               | Mayor                                     | January, 2008       |
| Lyle Erding                | Mayor Pro Tem                             | January, 2008       |
| James Daly                 | Council Member                            | January, 2010       |
| Dennis Blake               | Council Member                            | January, 2008       |
| John Loveless              | Council Member                            | January, 2008       |
| Duane Omar                 | Council Member                            | January, 2010       |
| (After January, 2008)      |   |                     |
| Ronda Hughes               | Mayor                                     | January, 2010       |
| James Daly                 | Mayor Pro Tem                             | January, 2010       |
| Josh Moore                 | Council Member                            | January, 2012       |
| Dennis Blake               | Council Member                            | January, 2012       |
| John Loveless              | Council Member                            | January, 2012       |
| Duane Omar                 | Council Member                            | January, 2010       |
| <b>Appointed Officials</b> |   |                     |
| John Lloyd                 | Administrator/Clerk                       | Indefinite          |
| Marlene Michel             | Deputy Clerk (retiring)                   | October 31, 2007    |
| Michelle Girolamo          | Deputy Clerk (appointed October 29, 2007) | Indefinite          |
| Joseph P. Braun            | Attorney                                  | Indefinite          |
| Dennis Cauwels             | Public Works Director                     | Indefinite          |

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Cresco, Iowa, as of and for the year ended June 30, 2008 which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, discretely presented component unit, the business-type activities, each major fund and the aggregate remaining fund information of the City of Cresco as of June 30, 2008, and the respective changes in the cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2008 on our consideration of the City of Cresco's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Honorable Mayor and  
Members of the City Council  
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Management's Discussion and Analysis and budgetary comparison information on Pages 4 through 10 and Page 22 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. We previously audited the financial statements and supplemental data for the four years ended June 30, 2007 (none of which are presented herein) in accordance with the standards referred to in the second paragraph of this report and expressed unqualified opinions on those financial statements and supplemental data. Other supplemental information included on Pages 23 through 28, 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 Nonprofit 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 audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*HOGAN - HANSEN*

HOGAN - HANSEN

Mason City, Iowa  
September 23, 2008

**City of Cresco, Iowa**  
**Management's Discussion and Analysis**  
**June 30, 2008**

The City of Cresco provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

**2008 FINANCIAL HIGHLIGHTS**

Revenue of the City's governmental activities decreased approximately \$1,361,600 from fiscal year 2007 to fiscal year 2008. This decrease is primarily due to a decrease in loan proceeds in the current fiscal year.

Disbursements increased approximately \$321,000 in fiscal year 2008 from fiscal year 2007. This is mainly due to capital project expenditures, as well as the cost of fuel and energy.

The City's total cash basis net assets decreased \$335,449 from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities decreased \$261,590 and the assets of the business-type activities decreased by \$73,859.

**USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The government-wide financial statement consists of a statement of activities and net assets - cash basis. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The fund financial statements tell how governmental services are financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

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

Required supplementary information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other supplementary information provides detailed information about the nonmajor governmental funds.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### **Government-Wide Financial Statement**

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The statement of activities and net assets reports information that helps answer this question.

The statement of activities and net assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities and net assets is divided into two kinds of activities:

- Governmental activities include public safety; public works; health and social services; culture and recreation; community and economic development; general government; debt service; and capital projects. Property tax; state and federal grants; and charges for service finance most of these activities.
- Business-type activities include the waterworks, the sanitary sewer system and various other funds. These activities are financed primarily by user charges.

### **Fund Financial Statements**

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic service. These focus on how money flows into and out of those funds and the balances at year end that are available for spending. The governmental funds include the (a) General Fund; (b) the Special Revenue Funds such as Road Use Tax, Employee Benefits, Urban Renewal T.I.F. Area, Expendable Trust, State Grants, Local Option Sales Tax, 2005 CDBG Housing Rehabilitation, CIDC Revolving Loan and Emergency; (c) the Debt Service Fund and the Capital Projects Funds such as Sewer Project, Street Shop Project 2007, Community Center 2007, Train Project 2007, Bike Trail Project 2007, Project Design and Airport Project. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provided. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's enterprise funds. Enterprise funds are used to report business-type activities. The City maintains nine enterprise funds to provide separate information for water and sewer. These are all self-sufficient funds. They include all debt service and capital projects associated with these funds. These funds are: Water Utility; Municipal Sanitary Sewer Utility Revenue; Municipal Sanitary Sewer Utility Operation and Maintenance; Municipal Sanitary Sewer Utility Replacement; Municipal Sanitary Sewer Utility Revenue Bond and Interest Sinking; Municipal Sanitary Sewer Utility Revenue Debt Service Reserve; Water Utility Repairs and Replacement and Water Meter Deposits; and Municipal Sanitary Sewer Utility and Water Utility Capital Improvements. Another enterprise fund is Yard Waste and Recycling.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from \$3,698,938 a year ago to \$3,437,348. The analysis that follows focuses on the changes in cash balances for governmental activities.

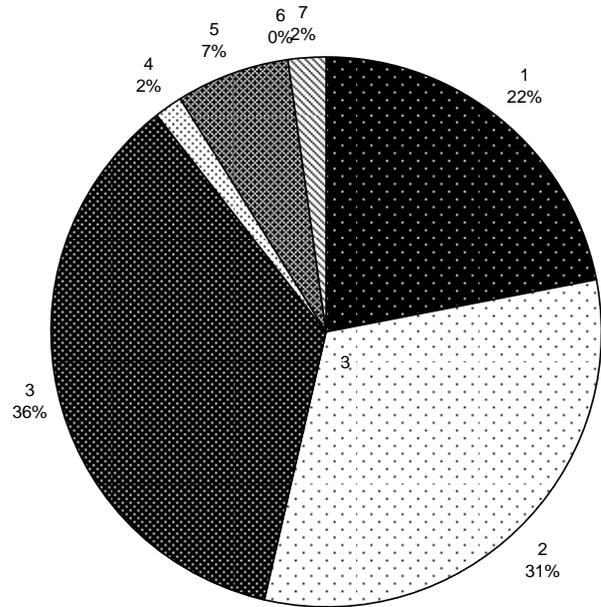
### Changes in Cash Basis Net Assets of Governmental Activities

|   | <u>Year Ended June 30,</u> |                            |
|---|----------------------------|----------------------------|
|   | <u>2008</u>                | <u>2007</u>                |
| Receipts and Transfers                                  |                            |                            |
| Program Receipts  |                            |                            |
| Charges for service                                     | \$ 992,487                 | \$ 965,745                 |
| Operating grants, contributions and restricted interest | 1,420,774                  | 859,328                    |
| General Receipts  |                            |                            |
| Property tax  | 1,625,948                  | 1,597,603                  |
| Other city tax  | 78,224                     | 51,488                     |
| Local option sales tax                                  | 295,318                    | 311,826                    |
| Interfund loan activity                                 | —                          | 123,780                    |
| Unrestricted interest on investments                    | 98,264                     | 73,814                     |
| Loan proceeds   | 2,024                      | 1,885,000                  |
| Other general receipts                                  | —                          | 6,052                      |
| Total Receipts and Transfers                            | <u>4,513,039</u>           | <u>5,874,636</u>           |
| Disbursements   |                            |                            |
| Public safety   | 637,709                    | 629,691                    |
| Public works  | 997,573                    | 1,057,308                  |
| Health and social services                              | 3,929                      | 3,929                      |
| Culture and recreation                                  | 958,363                    | 888,419                    |
| Community and economic development                      | 608,006                    | 533,219                    |
| General government                                      | 232,533                    | 220,785                    |
| Debt service  | 357,027                    | 335,041                    |
| Capital projects  | 883,829                    | 258,537                    |
| Interfund loan activity                                 | 123,780                    | —                          |
| Transfers, net  | (28,120)                   | 526,721                    |
| Total Disbursements                                     | <u>4,774,629</u>           | <u>4,453,650</u>           |
| Increase (Decrease) in Cash Basis Net Assets            | (261,590)                  | 1,420,986                  |
| Cash basis net assets - beginning of year               | <u>3,698,938</u>           | <u>2,277,952</u>           |
| <b>Cash Basis Net Assets - End of Year</b>              | <b><u>\$ 3,437,348</u></b> | <b><u>\$ 3,698,938</u></b> |

### Receipts 2008

|                           |               |
|---------------------------|---------------|
| 1. Charges for service    | \$ 992,487    |
| 2. Operating grants       | 1,420,774     |
| 3. Property tax           | 1,625,948     |
| 4. Other city tax         | 78,224        |
| 5. Local option sales tax | 295,318       |
| 6. Loan proceeds          | 2,024         |
| 7. Other                  | <u>98,264</u> |

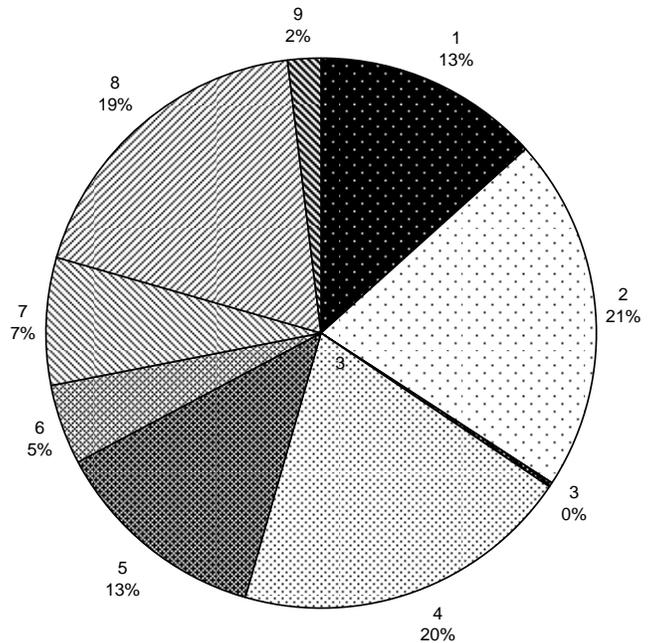
**Total** **\$ 4,513,039**



### Disbursements 2008

|                           |               |
|---------------------------|---------------|
| 1. Public safety          | \$ 637,709    |
| 2. Public works           | 997,573       |
| 3. Social services        | 3,929         |
| 4. Culture and recreation | 958,363       |
| 5. Economic development   | 608,006       |
| 6. Government             | 232,533       |
| 7. Debt                   | 357,027       |
| 8. Capital projects       | 883,829       |
| 9. Other                  | <u>95,660</u> |

**Total** **\$ 4,774,629**



The City's total receipts for governmental activities decreased by 23.2%, or \$1,361,597. The significant decrease was due to the City obtaining a loan for capital projects in the prior year.

The total cost of all programs and services increased by \$320,979, or 7.2%. The majority of this increase was in the capital projects function area along with a decrease in public works and transfers, net.

## Changes in Cash Basis Net Assets of Business-Type Activities

|  | <b>Year Ended June 30,</b> |                     |
|--|----------------------------|---------------------|
|  | <b>2008</b>                | <b>2007</b>         |
| Receipts                                     |                            |                     |
| Program Receipts                             |                            |                     |
| Charges for Service                          |                            |                     |
| Water  | \$ 302,875                 | \$ 311,931          |
| Sewer revenue                                | 558,692                    | 546,104             |
| Other proprietary                            | 68,801                     | 67,021              |
| General Receipts                             |                            |                     |
| Loan payments                                | 123,780                    | —                   |
| Unrestricted interest on investments         | 46,402                     | 38,072              |
| Other general receipts                       | 42,621                     | 6,711               |
| Net transfers                                | (28,120)                   | 526,721             |
| Total Receipts                               | 1,115,051                  | 1,496,560           |
| Disbursements and Transfers                  |                            |                     |
| Water  | 371,638                    | 305,725             |
| Water utility repair and replacement         | 195,492                    | 24,930              |
| Sewer operation and maintenance              | 443,329                    | 453,027             |
| Sewer replacement                            | 92,597                     | 587,049             |
| Interfund loan                               | —                          | 123,780             |
| Other proprietary                            | 85,854                     | 82,271              |
| Total Disbursements and Transfers            | 1,188,910                  | 1,576,782           |
| Increase (Decrease) in Cash Basis Net Assets | (73,859)                   | (80,222)            |
| Cash basis net assets - beginning of year    | 1,518,775                  | 1,598,997           |
| <b>Cash Basis Net Assets - End of Year</b>   | <b>\$ 1,444,916</b>        | <b>\$ 1,518,775</b> |

Total business-type activities receipts for the fiscal year were \$1,115,051 compared to \$1,496,560 last year. The decrease was a transfer in of loan proceeds in the prior year. The cash balance decreased by approximately \$73,900, or 4.9%, over the prior year. Total disbursements for the fiscal year decreased by 24.6%, or \$387,872. This decrease was primarily due to sewer system replacement activity and no interfund loan amounts.

### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City of Cresco's governmental funds reported a combined fund balance of \$3,437,348, a decrease of \$261,590 from last year's total of \$3,698,938.

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

The General Fund cash balance increased \$83,162 from the prior year to \$750,553. This increase was largely due to a full year of hotel/motel tax, a slight increase in property tax revenue and lower expenses.

The Road Use Tax Fund cash balance decreased by \$73,919 to \$354,589 during the fiscal year. This decrease is due to using accumulated balances to make necessary street improvements.

The Employee Benefits Fund cash balance increased \$35,271 to \$246,050 during the fiscal year. This year the City received \$427,718 in property taxes with additional revenue coming from interest on a certificate of deposit and utility tax replacement. Total revenue was \$445,817. This fund pays FICA, Medicare, IPERS, unemployment claims, health and life insurance for employees, except those employees paid from the water and sewer utilities. Expenses increased \$19,729.

The Urban Renewal T.I.F. Area received taxes of \$129,468 and the fund received interest on investments of \$12,660, with expenditures of \$112,129 and repayment of interfund loans in the amount of \$123,700. This resulted in a decrease in the cash balance of \$94,560 to \$353,815.

The Expendable Trust Fund is used to account for monies and properties received and held by the City in a trustee capacity. At the end of the fiscal year, the cash balance was \$460,264, an increase of \$34,971 from the previous year.

The State Grant Fund is used to account for grant money that is received by the City for other parties. During the fiscal year, \$561,441 was received and \$561,350 was disbursed, resulting in an increase in the cash balance of \$91 to \$257.

The Sewer Project Capital Project is used to account for a sewer project. Grants of \$352,917 and interest of \$4,841 with \$746,490 spent on the projects resulted in a fund balance of \$107,057.

## **INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS**

The Water Utility Fund cash balance increased by \$62,180 to \$152,196, due to lower loan interest and savings on labor and electricity.

The Water Utility Repair and Replacement Fund cash balance decreased by \$173,096 to \$360,597 due to meter replacement and well repair.

The Municipal Sanitary Sewer Utility Revenue Fund cash balance decreased by \$106,751 to \$18,249, due to transfers to other sanitary sewer funds.

The Municipal Sanitary Sewer Utility Operation and Maintenance Fund cash balance increased \$41,973 to \$88,522.

The Municipal Sanitary Sewer Utility Replacement Fund cash balance increased \$15,942 to \$321,415.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget twice. The amendments were approved on September 24, 2007 and April 21, 2008. The amendments resulted in increases in revenue from grant monies received. There were also increases in expenditures due to projects and grant monies expended and equipment purchases, capital projects started, increase in hotel/motel tax, as well as additional transfers.

## DEBT ADMINISTRATION

At June 30, 2008, the City had \$2,409,000 in general obligation debt, \$445,000 in revenue bond debt.

### Outstanding Debt at Year End

|                          |                            |
|--------------------------|----------------------------|
| General obligation notes | \$ 115,000                 |
| General obligation bonds | 2,294,000                  |
| Revenue bonds            | <u>445,000</u>             |
| <b>Totals</b>            | <b><u>\$ 2,854,000</u></b> |

The City continues to carry a general obligation bond rating of A3. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,854,000 is below its constitutional debt limit of \$7,879,540.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

We have already performed one budget amendment due to projects running behind schedule, equipment ordered but not delivered and equipment repairs. An increase in fuel costs, as well as other energy costs in general, combined with a lack of increased funding either through property or road use taxes will continue to place pressure on the City's budget.

## FINANCIAL CONTACT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact John Lloyd, City Clerk, at 227 North Elm Street, Cresco, Iowa.

## **Basic Financial Statements**

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**Statement of Activities and Net Assets - Cash Basis**

Year Ended June 30, 2008

| Functions/Programs                                | Disbursements       | Program Receipts    |   | Net (Disbursements) Receipts and Changes in Cash Basis Net Assets |                          |                     | Component Unit    |
|---|---------------------|---------------------|---|---|--------------------------|---------------------|-------------------|
|   |                     | Charges for Service | Operating Grants, Contributions and Restricted Interest | Governmental Activities   | Business-Type Activities | Total               |                   |
| <b>Governmental Activities</b>                    |                     |                     |   |   |                          |                     |                   |
| Public safety .....                               | \$ 637,709          | \$ 24,204           | \$ 18,640   | \$ (594,865)  | \$ —                     | \$ (594,865)        | \$ —              |
| Public works .....                                | 997,573             | 503,478             | 338,277   | (155,818)   | —                        | (155,818)           | —                 |
| Health and social services.....                   | 3,929               | —                   | —   | (3,929)   | —                        | (3,929)             | —                 |
| Culture and recreation.....                       | 958,363             | 422,666             | 127,946   | (407,751)   | —                        | (407,751)           | —                 |
| Community and economic development .....          | 608,006             | —                   | 582,994   | (25,012)  | —                        | (25,012)            | —                 |
| General government.....                           | 232,533             | 42,139              | —   | (190,394)   | —                        | (190,394)           | —                 |
| Debt service.....                                 | 357,027             | —                   | —   | (357,027)   | —                        | (357,027)           | —                 |
| Capital projects.....                             | 883,829             | —                   | 352,917   | (530,912)   | —                        | (530,912)           | —                 |
| <b>Total Governmental Activities .....</b>        | <b>4,678,969</b>    | <b>992,487</b>      | <b>1,420,774</b>  | <b>(2,265,708)</b>  | <b>—</b>                 | <b>(2,265,708)</b>  | <b>—</b>          |
| <b>Business-Type Activities</b>                   |                     |                     |   |   |                          |                     |                   |
| Water .....                                       | 371,638             | 302,875             | —   | —   | (68,763)                 | (68,763)            | —                 |
| Water utility repair and replacement.....         | 195,492             | —                   | —   | —   | (195,492)                | (195,492)           | —                 |
| Sewer revenue .....                               | —                   | 558,692             | —   | —   | 558,692                  | 558,692             | —                 |
| Sewer operation and maintenance.....              | 443,329             | —                   | —   | —   | (443,329)                | (443,329)           | —                 |
| Sewer replacement.....                            | 92,597              | —                   | —   | —   | (92,597)                 | (92,597)            | —                 |
| Other proprietary .....                           | 85,854              | 68,801              | —   | —   | (17,053)                 | (17,053)            | —                 |
| <b>Total Business-Type Activities.....</b>        | <b>1,188,910</b>    | <b>930,368</b>      | <b>—</b>  | <b>—</b>  | <b>(258,542)</b>         | <b>(258,542)</b>    | <b>—</b>          |
| <b>Total .....</b>                                | <b>\$ 5,867,879</b> | <b>\$ 1,922,855</b> | <b>\$ 1,420,774</b>                                     | <b>(2,265,708)</b>  | <b>(258,542)</b>         | <b>(2,524,250)</b>  | <b>—</b>          |
| <b>Component Unit</b>                             |                     |                     |   |   |                          |                     |                   |
| <b>Cresco Public Library Foundation.....</b>      | <b>\$ 10,788</b>    |                     | <b>\$ 16,638</b>  | <b>—</b>  | <b>—</b>                 | <b>—</b>            | <b>5,850</b>      |
| <b>General Receipts</b>                           |                     |                     |   |   |                          |                     |                   |
| Property Tax Levied for                           |                     |                     |   |   |                          |                     |                   |
| General purposes.....                             |                     |                     |   | 833,017   | —                        | 833,017             | —                 |
| Tax increment financing.....                      |                     |                     |   | 129,468   | —                        | 129,468             | —                 |
| Debt service .....                                |                     |                     |   | 236,345   | —                        | 236,345             | —                 |
| Employee benefits.....                            |                     |                     |   | 427,118   | —                        | 427,118             | —                 |
| Other City tax.....                               |                     |                     |   | 78,224  | —                        | 78,224              | —                 |
| Local option sales tax.....                       |                     |                     |   | 295,318   | —                        | 295,318             | —                 |
| Interfund loan activity.....                      |                     |                     |   | (123,780)   | 123,780                  | —                   | —                 |
| Unrestricted interest on investments .....        |                     |                     |   | 98,264  | 46,402                   | 144,666             | 7,419             |
| Miscellaneous.....                                |                     |                     |   | —   | 42,621                   | 42,621              | —                 |
| Anticipation project note proceeds .....          |                     |                     |   | 2,024   | —                        | 2,024               | —                 |
| <b>Transfers .....</b>                            |                     |                     |   | <b>28,120</b>   | <b>(28,120)</b>          | <b>—</b>            | <b>—</b>          |
| <b>Total General Receipts and Transfers .....</b> |                     |                     |   | <b>2,004,118</b>  | <b>184,683</b>           | <b>2,188,801</b>    | <b>7,419</b>      |
| <b>Change in Cash Basis Net Assets .....</b>      |                     |                     |   | <b>(261,590)</b>  | <b>(73,859)</b>          | <b>(335,449)</b>    | <b>13,269</b>     |
| Cash Basis Net Assets - Beginning of Year .....   |                     |                     |   | 3,698,938   | 1,518,775                | 5,217,713           | 189,431           |
| <b>Cash Basis Net Assets - End of Year .....</b>  |                     |                     |   | <b>\$ 3,437,348</b>   | <b>\$ 1,444,916</b>      | <b>\$ 4,882,264</b> | <b>\$ 202,700</b> |
| <b>Cash Basis Net Assets</b>                      |                     |                     |   |   |                          |                     |                   |
| Restricted  |                     |                     |   |   |                          |                     |                   |
| Streets.....                                      |                     |                     |   | \$ 354,589  | \$ —                     | \$ 354,589          | \$ —              |
| Urban renewal purposes.....                       |                     |                     |   | 353,815   | —                        | 353,815             | —                 |
| Debt service .....                                |                     |                     |   | 149,789   | —                        | 149,789             | —                 |
| Capital projects .....                            |                     |                     |   | 709,682   | —                        | 709,682             | —                 |
| Other purposes .....                              |                     |                     |   | 1,138,920   | 232,336                  | 1,371,256           | —                 |
| Unrestricted .....                                |                     |                     |   | 730,553   | 1,212,580                | 1,943,133           | 202,700           |
| <b>Total Cash Basis Net Assets .....</b>          |                     |                     |   | <b>\$ 3,437,348</b>   | <b>\$ 1,444,916</b>      | <b>\$ 4,882,264</b> | <b>\$ 202,700</b> |

See accompanying notes to the financial statements.

**Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Governmental Funds - All Fund Types**

Year Ended June 30, 2008

|   | General           | Special Revenue   |                   |                           |                   | State Grants   | Capital Project Sewer Project | Other Nonmajor Governmental Funds | Total               |
|---|-------------------|-------------------|-------------------|---------------------------|-------------------|----------------|-------------------------------|-----------------------------------|---------------------|
|   |                   | Road Use Tax      | Employee Benefits | Urban Renewal T.I.F. Area | Expendable Trust  |                |                               |                                   |                     |
| <b>Receipts</b>                                   |                   |                   |                   |                           |                   |                |                               |                                   |                     |
| Property tax .....                                | \$ 809,903        | \$ —              | \$ 427,118        | \$ —                      | \$ —              | \$ —           | \$ —                          | \$ 259,459                        | \$ 1,496,480        |
| T.I.F. collections .....                          | —                 | —                 | —                 | 129,468                   | —                 | —              | —                             | —                                 | 129,468             |
| Other city tax .....                              | 59,338            | —                 | 11,919            | —                         | —                 | —              | —                             | 302,285                           | 373,542             |
| Licenses and permits.....                         | 13,536            | —                 | —                 | —                         | —                 | —              | —                             | —                                 | 13,536              |
| Use of money and property .....                   | 64,509            | —                 | 3,806             | 12,660                    | 14,635            | —              | 4,841                         | 36,493                            | 136,944             |
| Intergovernmental.....                            | 43,723            | 334,552           | —                 | —                         | —                 | 561,441        | 352,917                       | 58,795                            | 1,351,428           |
| Charges for service .....                         | 871,211           | —                 | —                 | —                         | —                 | —              | —                             | —                                 | 871,211             |
| Special assessments.....                          | —                 | —                 | —                 | —                         | 1,435             | —              | —                             | —                                 | 1,435               |
| Miscellaneous.....                                | 68,477            | —                 | 2,974             | —                         | 24,967            | —              | —                             | 40,553                            | 136,971             |
| <b>Total Receipts .....</b>                       | <b>1,930,697</b>  | <b>334,552</b>    | <b>445,817</b>    | <b>142,128</b>            | <b>41,037</b>     | <b>561,441</b> | <b>357,758</b>                | <b>697,585</b>                    | <b>4,511,015</b>    |
| <b>Disbursements</b>                              |                   |                   |                   |                           |                   |                |                               |                                   |                     |
| Operating   |                   |                   |                   |                           |                   |                |                               |                                   |                     |
| Public safety.....                                | 476,207           | —                 | 156,978           | —                         | 2,000             | —              | —                             | 2,524                             | 637,709             |
| Public works.....                                 | 480,754           | 408,471           | 108,290           | —                         | 58                | —              | —                             | —                                 | 997,573             |
| Health and social services .....                  | 3,929             | —                 | —                 | —                         | —                 | —              | —                             | —                                 | 3,929               |
| Culture and recreation.....                       | 706,734           | —                 | 119,240           | —                         | 23,595            | —              | —                             | 108,794                           | 958,363             |
| Community and economic development.....           | 7,597             | —                 | —                 | 779                       | 141               | 561,350        | —                             | 38,139                            | 608,006             |
| General government .....                          | 206,227           | —                 | 26,038            | —                         | —                 | —              | —                             | 268                               | 232,533             |
| Debt service.....                                 | —                 | —                 | —                 | 112,129                   | —                 | —              | —                             | 244,898                           | 357,027             |
| Capital projects.....                             | —                 | —                 | —                 | —                         | —                 | —              | 746,490                       | 137,339                           | 883,829             |
| <b>Total Disbursements .....</b>                  | <b>1,881,448</b>  | <b>408,471</b>    | <b>410,546</b>    | <b>112,908</b>            | <b>25,794</b>     | <b>561,350</b> | <b>746,490</b>                | <b>531,962</b>                    | <b>4,678,969</b>    |
| <b>Receipts Over (Under) Disbursements.....</b>   | <b>49,249</b>     | <b>(73,919)</b>   | <b>35,271</b>     | <b>29,220</b>             | <b>15,243</b>     | <b>91</b>      | <b>(388,732)</b>              | <b>165,623</b>                    | <b>(167,954)</b>    |
| <b>Other Financing Sources (Uses)</b>             |                   |                   |                   |                           |                   |                |                               |                                   |                     |
| Anticipation project note proceeds .....          | —                 | —                 | —                 | —                         | —                 | —              | —                             | 2,024                             | 2,024               |
| Interfund loan activity.....                      | —                 | —                 | —                 | (123,780)                 | —                 | —              | —                             | —                                 | (123,780)           |
| Transfers in.....                                 | 55,487            | —                 | —                 | —                         | 39,440            | —              | —                             | 40,228                            | 135,155             |
| Transfers out .....                               | (21,574)          | —                 | —                 | —                         | (19,712)          | —              | —                             | (65,749)                          | (107,035)           |
| <b>Total Other Financing Sources (Uses) .....</b> | <b>33,913</b>     | <b>—</b>          | <b>—</b>          | <b>(123,780)</b>          | <b>19,728</b>     | <b>—</b>       | <b>—</b>                      | <b>(23,497)</b>                   | <b>(93,636)</b>     |
| <b>Increase (Decrease) in Cash Balances.....</b>  | <b>83,162</b>     | <b>(73,919)</b>   | <b>35,271</b>     | <b>(94,560)</b>           | <b>34,971</b>     | <b>91</b>      | <b>(388,732)</b>              | <b>142,126</b>                    | <b>(261,590)</b>    |
| Cash Balances - Beginning of Year.....            | 647,391           | 428,508           | 210,779           | 448,375                   | 425,293           | 166            | 495,789                       | 1,042,637                         | 3,698,938           |
| <b>Cash Balances - End of Year .....</b>          | <b>\$ 730,553</b> | <b>\$ 354,589</b> | <b>\$ 246,050</b> | <b>\$ 353,815</b>         | <b>\$ 460,264</b> | <b>\$ 257</b>  | <b>\$ 107,057</b>             | <b>\$ 1,184,763</b>               | <b>\$ 3,437,348</b> |
| <b>Cash Basis Fund Balances</b>                   |                   |                   |                   |                           |                   |                |                               |                                   |                     |
| Reserved  |                   |                   |                   |                           |                   |                |                               |                                   |                     |
| Debt service .....                                | \$ —              | \$ —              | \$ —              | \$ —                      | \$ —              | \$ —           | \$ —                          | \$ 149,789                        | \$ 149,789          |
| Unreserved  |                   |                   |                   |                           |                   |                |                               |                                   |                     |
| General fund .....                                | 730,553           | —                 | —                 | —                         | —                 | —              | —                             | —                                 | 730,553             |
| Special revenue fund .....                        | —                 | 354,589           | 246,050           | 353,815                   | 460,264           | 257            | —                             | 432,349                           | 1,847,324           |
| Capital projects fund .....                       | —                 | —                 | —                 | —                         | —                 | —              | 107,057                       | 602,625                           | 709,682             |
| <b>Total Cash Basis Fund Balances .....</b>       | <b>\$ 730,553</b> | <b>\$ 354,589</b> | <b>\$ 246,050</b> | <b>\$ 353,815</b>         | <b>\$ 460,264</b> | <b>\$ 257</b>  | <b>\$ 107,057</b>             | <b>\$ 1,184,763</b>               | <b>\$ 3,437,348</b> |

See accompanying notes to the financial statements.

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

Year Ended June 30, 2008

|  | Water Utility     | Water Utility<br>Repair and<br>Replacement | Municipal<br>Sanitary<br>Sewer<br>Utility<br>Revenue | Municipal<br>Sanitary<br>Sewer Utility<br>Operation and<br>Maintenance | Municipal<br>Sanitary<br>Sewer Utility<br>Replacement | Other<br>Nonmajor<br>Proprietary<br>Funds | Total               |
|--|-------------------|--|--|--|---|---|---------------------|
| <b>Operating Receipts</b>  |                   |  |  |  |   |   |                     |
| Charges for service .....  | \$ 302,875        | \$ —                                       | \$ 558,692   | \$ —   | \$ —  | \$ 68,801                                 | \$ 930,368          |
| Miscellaneous .....  | 17,891            | —  | 13,789   | —  | —   | 10,941                                    | 42,621              |
| <b>Total Operating Receipts</b> .....                                | <b>320,766</b>    | <b>—</b>                                   | <b>572,481</b>                                       | <b>—</b>   | <b>—</b>  | <b>79,742</b>                             | <b>972,989</b>      |
| <b>Operating Disbursements</b>                                       |                   |  |  |  |   |   |                     |
| Business-type activities .....                                       | <b>371,638</b>    | <b>195,492</b>                             | <b>—</b>   | <b>443,329</b>   | <b>92,597</b>   | <b>40,409</b>                             | <b>1,143,465</b>    |
| <b>Operating Receipts Over (Under) Operating Disbursements</b> ..... | <b>(50,872)</b>   | <b>(195,492)</b>                           | <b>572,481</b>                                       | <b>(443,329)</b>   | <b>(92,597)</b>                                       | <b>39,333</b>                             | <b>(170,476)</b>    |
| <b>Nonoperating Receipts (Disbursements)</b>                         |                   |  |  |  |   |   |                     |
| Interest on investments .....  | 9,261             | 12,396                                     | 3,716  | 302  | 8,539   | 12,188                                    | 46,402              |
| Interfund loan repayment .....                                       | 123,780           | —  | —  | —  | —   | —   | 123,780             |
| Debt service .....   | —                 | —  | —  | —  | —   | (45,445)                                  | (45,445)            |
| <b>Net Nonoperating Receipts (Disbursements)</b> .....               | <b>133,041</b>    | <b>12,396</b>                              | <b>3,716</b>   | <b>302</b>   | <b>8,539</b>  | <b>(33,257)</b>                           | <b>124,737</b>      |
| <b>Receipts Over (Under) Disbursements</b> .....                     | <b>82,169</b>     | <b>(183,096)</b>                           | <b>576,197</b>                                       | <b>(443,027)</b>   | <b>(84,058)</b>                                       | <b>6,076</b>                              | <b>(45,739)</b>     |
| <b>Other Financing Sources (Uses)</b>                                |                   |  |  |  |   |   |                     |
| Transfers in .....   | —                 | 10,000                                     | —  | 485,000  | 100,000   | 85,000                                    | 680,000             |
| Transfers out .....  | (19,989)          | —  | (682,948)  | —  | —   | (5,183)                                   | (708,120)           |
| <b>Total Other Financing Sources (Uses)</b> .....                    | <b>(19,989)</b>   | <b>10,000</b>                              | <b>(682,948)</b>                                     | <b>485,000</b>   | <b>100,000</b>  | <b>79,817</b>                             | <b>(28,120)</b>     |
| <b>Increase (Decrease) in Cash Balances</b> .....                    | <b>62,180</b>     | <b>(173,096)</b>                           | <b>(106,751)</b>                                     | <b>41,973</b>  | <b>15,942</b>   | <b>85,893</b>                             | <b>(73,859)</b>     |
| Cash Balances - Beginning of Year .....                              | 90,016            | 533,693                                    | 125,000  | 46,549   | 305,473   | 418,044                                   | 1,518,775           |
| <b>Cash Balances - End of Year</b> .....                             | <b>\$ 152,196</b> | <b>\$ 360,597</b>                          | <b>\$ 18,249</b>                                     | <b>\$ 88,522</b>   | <b>\$ 321,415</b>                                     | <b>\$ 503,937</b>                         | <b>\$ 1,444,916</b> |
| <b>Cash Basis Fund Balances</b>                                      |                   |  |  |  |   |   |                     |
| Reserved .....   | \$ —              | \$ —                                       | \$ —   | \$ —   | \$ —  | \$ 232,336                                | \$ 232,336          |
| Unreserved .....   | 152,196           | 360,597                                    | 18,249   | 88,522   | 321,415   | 271,601                                   | 1,212,580           |
| <b>Total Cash Basis Fund Balances</b> .....                          | <b>\$ 152,196</b> | <b>\$ 360,597</b>                          | <b>\$ 18,249</b>                                     | <b>\$ 88,522</b>   | <b>\$ 321,415</b>                                     | <b>\$ 503,937</b>                         | <b>\$ 1,444,916</b> |

# Notes to the Financial Statements

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## **(1) Summary of Significant Accounting Policies**

The City of Cresco, Iowa, is a political subdivision of the State of Iowa located in Howard County. It was first incorporated in 1866 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and council members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general administrative services. The City also provides water and sewer utilities for its citizens.

### **Reporting Entity**

For financial reporting purposes, the City of Cresco has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Cresco (the primary government) and its discretely presented component unit, the Cresco Public Library Foundation (Foundation). The Foundation does not issue separately audited financial statements.

### **Discrete Component Unit**

The Cresco Public Library Foundation (an Iowa nonprofit corporation) is a component unit that is legally separate from the City. The Foundation is governed by a Board of Trustees, which is the same Board as the Library Board. Economic resources received by the Foundation are used for the direct benefit of the Cresco Public Library and, therefore, the City's constituents.

### **Jointly Governed Organizations**

The City also participates in several jointly governed organizations that provide goods and services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Cresco Industrial Development Corporation, Airport Commission and Zoning Board.

### **Basis of Presentation**

#### ***Government-Wide Financial Statements***

The statement of activities and net assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies

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 other nonmajor governmental funds.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

### *Special Revenue*

The *Road Use Tax Fund* is used to account for road construction and maintenance.

The *Employee Benefit Fund* is used to account for employee payroll taxes and health and life insurance expense.

The *Urban Renewal T.I.F. Area Fund* is used to account for urban renewal projects financed by tax increment financing.

The *Expendable Trust Funds* are used to account for monies and properties received and held by the City in a trustee capacity.

The *State Grant Fund* is used to account for state grants received and disbursed to grant recipients.

# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies

### *Capital Project*

The *Sewer Project Fund* is used to account for the Sewer Capital Project being financed with general obligation debt.

The City reports the following major proprietary funds:

The *Water Utility Fund* accounts for the operation and maintenance of the City's water system.

The *Water Utility Repair and Replacement Fund* accounts for the resources spent on the repairs and replacement of the water system.

The *Municipal Sanitary Sewer Utility Revenue Fund* accounts for the receipts from the operation of the City's waste water treatment and sanitary sewer system.

The *Municipal Sanitary Sewer Utility Operation and Maintenance Fund* accounts for the operation and maintenance expense of the City's waste water treatment and sanitary sewer system.

The *Municipal Sanitary Sewer Utility Replacement Fund* accounts for the resources received to replace the City's waste water treatment and sanitary sewer system.

### **Basis of Accounting**

The City of Cresco maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the fund types in accordance with accounting principles generally accepted in the United States of America.

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

### **Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the community and economic development and debt service functions.

## Notes to the Financial Statements

### (2) Deposits and Investments

The City's deposits at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

City investments are categorized to give an indication of the level of risk assumed by the City at year end. The City had no investments at June 30, 2008.

#### Component Unit

The Cresco Public Library Foundation investments at June 30, 2008 are shown below.

|                              |                          |
|------------------------------|--------------------------|
| Certificates of deposit..... | \$ 165,534               |
| Checking/savings .....       | <u>36,166</u>            |
|                              | <b><u>\$ 201,700</u></b> |

### (3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes, revenue notes and other loans are as follows.

| Year<br>Ending<br>June 30, | General<br>Obligation Bonds |                        | General<br>Obligation Notes |                          | Sewer<br>Revenue Notes   |                          | Total                      |                          |
|----------------------------|-----------------------------|------------------------|-----------------------------|--------------------------|--------------------------|--------------------------|----------------------------|--------------------------|
|                            | Principal                   | Interest               | Principal                   | Interest                 | Principal                | Interest                 | Principal                  | Interest                 |
| 2009 .....                 | \$ 55,000                   | \$ 4,404               | \$ 221,000                  | \$ 95,900                | \$ 26,000                | \$ 19,135                | \$ 302,000                 | \$ 119,439               |
| 2010 .....                 | 60,000                      | 2,340                  | 226,000                     | 86,042                   | 27,000                   | 18,017                   | 313,000                    | 106,399                  |
| 2011 .....                 | —                           | —                      | 237,000                     | 75,726                   | 29,000                   | 16,856                   | 266,000                    | 92,582                   |
| 2012 .....                 | —                           | —                      | 137,000                     | 64,898                   | 30,000                   | 16,856                   | 167,000                    | 81,754                   |
| 2013 .....                 | —                           | —                      | 138,000                     | 59,757                   | 31,000                   | 14,319                   | 169,000                    | 74,076                   |
| 2014-2018                  | —                           | —                      | 688,000                     | 214,183                  | 176,000                  | 50,439                   | 864,000                    | 264,622                  |
| 2019-2023                  | —                           | —                      | 402,000                     | 103,360                  | 126,000                  | 11,008                   | 528,000                    | 114,368                  |
| 2024-2026                  | —                           | —                      | 245,000                     | 21,700                   | —                        | —                        | 245,000                    | 21,700                   |
|                            | <b><u>\$ 115,000</u></b>    | <b><u>\$ 6,744</u></b> | <b><u>\$ 2,294,000</u></b>  | <b><u>\$ 721,566</u></b> | <b><u>\$ 445,000</u></b> | <b><u>\$ 146,630</u></b> | <b><u>\$ 2,854,000</u></b> | <b><u>\$ 874,940</u></b> |

The resolution providing for the issuance of sewer revenue notes includes the following provisions:

1. The bonds are to be redeemed from future earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the fund.
2. Sufficient cash transfers shall be made to the municipal sanitary sewer utility revenue bond and interest sinking account for the purpose of making the bond principal and interest payments when due.

## Notes to the Financial Statements

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### **(3) Bonds and Notes Payable**

3. Additional cash transfers shall be made to the municipal sanitary sewer utility revenue debt service reserve account until a specific minimum balance has been reached to provide a reserve to meet future bond principal and interest payments.

The City was in compliance with these provisions at June 30, 2008.

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, during the year \$106,015 was paid from the Urban Renewal T.I.F. Area Fund.

### **Interfund Loan**

The City approved, on August 21, 2006, an interfund loan in the amount of \$123,780 from the Water Utility Fund to the T.I.F. Fund at a 5% interest rate. Payments will be made from annual T.I.F. taxes collected from one development project. During the year ended June 30, 2008, \$123,780 of principal and \$6,114 of interest was paid. The unpaid balance of the loan at June 30, 2008 was \$0.

### **Anticipation Project Note**

An anticipation project note was issued pursuant to Sections 76.13 and 384.24A of the Code of Iowa for the purpose of defraying the costs of sewer project design costs.

The City issued a \$26,900 anticipation project note at 0% interest per annum, for sewer project design costs. As of June 30, 2008, \$2,024 had been drawn down on the note.

### **(4) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 3.9% of their annual covered salary and the City is required to contribute 6.05% 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 years ended June 30, 2008, 2007 and 2006 were \$86,347, \$77,034 and \$76,854, respectively, equal to the required contributions for each year.

### **(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused compensatory time off, vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. Compensatory time off and vacation benefits are payable in full when used or upon termination, retirement or death. Sick leave hours are payable in full when used, while the amount payable upon retirement or death is 20% of accumulated hours at the current hourly rate.

## Notes to the Financial Statements

### (5) Compensated Absences

These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate maximum liability for earned compensatory time off, vacation and sick leave payments (including related fringe benefits) payable to employees at June 30, 2008, primarily relating to the General Fund was as follows:

| Type of Benefit             | Amount                   |
|-----------------------------|--------------------------|
| Compensatory time off ..... | \$ 41,479                |
| Vacation.....               | 117,542                  |
| Sick leave (100%).....      | <u>538,441</u>           |
| <b>Total</b> .....          | <b><u>\$ 697,462</u></b> |

This liability has been computed based on rates of pay as of June 30, 2008.

### (6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

| Transfer To      | Transfer From                            | Amount        |
|------------------|--|---------------|
| General          | Special Revenue                          |               |
|                  | Expendable Trust                         | \$ 9,150      |
|                  | Local Option Sales Tax                   | 4,940         |
|                  | Emergency                                | 21,277        |
|                  | Proprietary                              |               |
|                  | Municipal Sanitary Sewer and             |               |
|                  | Water Utility Capital Improvements       | 296           |
|                  | Water Utility                            | 7,989         |
|                  | Municipal Sanitary Sewer Utility Revenue | 10,948        |
|                  | Yard Waste and Recycling                 | <u>887</u>    |
|                  |  | <u>55,487</u> |
| Special Revenue  | General Fund                             | 21,440        |
| Expendable Trust | Special Revenue                          |               |
|                  | Local Option Sales Tax                   | 10,000        |
|                  | Proprietary                              |               |
|                  | Municipal Sanitary Sewer and             |               |
|                  | Water Utility Capital Improvements       | 2,000         |
|                  | Water Utility                            | 2,000         |
|                  | Municipal Sanitary Sewer Utility Revenue | 2,000         |
|                  | Yard Waste and Recycling                 | <u>2,000</u>  |
|                  |  | <u>39,440</u> |
| Debt Service     | Special Revenue                          |               |
|                  | Local Option Sales Tax                   | <u>29,532</u> |

## Notes to the Financial Statements

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### (6) Interfund Transfers

| Transfer To  | Transfer From   | Amount                   |
|--|---|--------------------------|
| Capital Project<br>Airport Project   | General   | \$ <u>134</u>            |
| Special Revenue<br>2005 CDBG Housing Rehabilitation                                  | Special Revenue<br>Expendable Trust                     | <u>10,562</u>            |
| Proprietary<br>Water Utility Repair and Replacement                                  | Proprietary<br>Water Utility                            | <u>10,000</u>            |
| Proprietary<br>Municipal Sanitary Sewer Utility<br>Operation and Maintenance         | Proprietary<br>Municipal Sanitary Sewer Utility Revenue | <u>485,000</u>           |
| Proprietary<br>Municipal Sanitary Sewer Utility<br>Replacement                       | Proprietary<br>Municipal Sanitary Sewer Utility Revenue | <u>100,000</u>           |
| Proprietary<br>Municipal Sanitary Sewer Utility<br>Revenue Bond and Interest Sinking | Proprietary<br>Municipal Sanitary Sewer Utility Revenue | <u>30,000</u>            |
| Proprietary<br>Municipal Sanitary Sewer Utility<br>Revenue Debt Service Reserve      | Proprietary<br>Municipal Sanitary Sewer Utility Revenue | <u>55,000</u>            |
| <b>Total</b>   |   | <b><u>\$ 815,155</u></b> |

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

### (7) Risk Management

The City of Cresco is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## Notes to the Financial Statements

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### (8) Commitments

At June 30, 2008, the City had entered into contracts for improvements in the amounts below:

| <b>Project</b>                          | <b>Total<br/>Contract</b> | <b>Paid Through<br/>June 30, 2008</b> | <b>Approximate<br/>Remaining<br/>Commitment</b> |
|---|---------------------------|---------------------------------------|---|
| Industrial Park Lift Station.....       | \$ 66,980                 | \$ 50,093                             | \$ 16,887                                       |
| 2006 sanitary sewer improvements.....   | 127,000                   | 120,600                               | 6,400   |
| Community Center.....                   | 99,500                    | 49,417                                | 50,083  |
| 2007 sanitary sewer reconstruction..... | 728,616                   | 692,686                               | 35,930  |
| Recreation trail .....                  | 79,078                    | 60,479                                | 18,599  |

### Equipment

At June 30, 2008, the City had entered into a contract to purchase a loader for \$89,800.

### (9) Donation

The City of Cresco received an office building through a donation during the year ended June 30, 2008, which was valued at approximately \$330,000. The City plans to remodel the space and use it for City Hall and the Public Works Department.

**Required Supplementary Information**

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**Schedule of Budgetary Comparison of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds**

Year Ended June 30, 2008

|  | Governmental<br>Funds - Actual | Proprietary<br>Funds - Actual | Net<br>Actual       | Budgeted Amounts    |                     | Final to Net<br>Actual Variance |
|--|--------------------------------|-------------------------------|---------------------|---------------------|---------------------|---------------------------------|
|  |                                |                               |                     | Original            | Final               |                                 |
| <b>Receipts</b>  |                                |                               |                     |                     |                     |                                 |
| Property tax .....   | \$ 1,496,480                   | \$ —                          | \$ 1,496,480        | \$ 1,517,504        | \$ 1,517,504        | \$ (21,024)                     |
| T.I.F. collections .....   | 129,468                        | —                             | 129,468             | 129,969             | 129,969             | (501)                           |
| Other city tax .....   | 373,542                        | —                             | 373,542             | 326,600             | 366,600             | 6,942                           |
| Licenses and permits.....  | 13,536                         | —                             | 13,536              | 12,790              | 12,790              | 746                             |
| Use of money and property .....  | 136,944                        | 46,402                        | 183,346             | 104,121             | 167,394             | 15,952                          |
| Intergovernmental.....   | 1,351,428                      | —                             | 1,351,428           | 982,038             | 1,439,775           | (88,347)                        |
| Charges for service .....  | 871,211                        | 930,368                       | 1,801,579           | 1,697,320           | 1,779,720           | 21,859                          |
| Special assessments.....   | 1,435                          | —                             | 1,435               | —                   | —                   | 1,435                           |
| Miscellaneous.....   | 136,971                        | 42,621                        | 179,592             | 147,549             | 174,727             | 4,865                           |
| <b>Total Receipts.....</b>   | <b>4,511,015</b>               | <b>1,019,391</b>              | <b>5,530,406</b>    | <b>4,917,891</b>    | <b>5,588,479</b>    | <b>(58,073)</b>                 |
| <b>Disbursements</b>   |                                |                               |                     |                     |                     |                                 |
| Public safety .....  | 637,709                        | —                             | 637,709             | 667,174             | 662,648             | 24,939                          |
| Public works .....   | 997,573                        | —                             | 997,573             | 1,038,254           | 1,076,053           | 78,480                          |
| Health and social services.....  | 3,929                          | —                             | 3,929               | 4,000               | 4,000               | 71                              |
| Culture and recreation.....  | 958,363                        | —                             | 958,363             | 1,175,258           | 1,062,956           | 104,593                         |
| Community and economic development .....   | 608,006                        | —                             | 608,006             | 488,500             | 497,500             | (110,506)                       |
| General government.....  | 232,533                        | —                             | 232,533             | 214,678             | 251,907             | 19,374                          |
| Debt service.....  | 357,027                        | —                             | 357,027             | 352,198             | 352,198             | (4,829)                         |
| Capital projects.....  | 883,829                        | —                             | 883,829             | 745,100             | 1,162,000           | 278,171                         |
| Business-type activities .....   | —                              | 1,188,910                     | 1,188,910           | 1,258,965           | 1,425,165           | 236,255                         |
| <b>Total Disbursements.....</b>  | <b>4,678,969</b>               | <b>1,188,910</b>              | <b>5,867,879</b>    | <b>5,944,127</b>    | <b>6,494,427</b>    | <b>626,548</b>                  |
| <b>Receipts Over (Under) Disbursements.....</b>  | <b>(167,954)</b>               | <b>(169,519)</b>              | <b>(337,473)</b>    | <b>(1,026,236)</b>  | <b>(905,948)</b>    | <b>568,475</b>                  |
| <b>Other Financing Sources, Net .....</b>  | <b>(93,636)</b>                | <b>95,660</b>                 | <b>2,024</b>        | <b>—</b>            | <b>—</b>            | <b>2,024</b>                    |
| <b>Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses.....</b> | <b>(261,590)</b>               | <b>(73,859)</b>               | <b>(335,449)</b>    | <b>(1,026,236)</b>  | <b>(905,948)</b>    | <b>570,499</b>                  |
| Balances - Beginning of Year .....   | 3,698,938                      | 1,518,775                     | 5,217,713           | 5,217,267           | 5,217,267           | 446                             |
| <b>Balances - End of Year.....</b>   | <b>\$ 3,437,348</b>            | <b>\$ 1,444,916</b>           | <b>\$ 4,882,264</b> | <b>\$ 4,191,031</b> | <b>\$ 4,311,319</b> | <b>\$ 570,945</b>               |

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 nonprogram. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$550,300. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded amounts budgeted in the community and economic development and debt service functions.

**Other Supplementary Information** 

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

Year Ended June 30, 2008

|   | Special Revenue              |   |                 |                           | Capital Projects            |                    |                                |                    |                  |                   |                   | Total               |
|---|------------------------------|---|-----------------|---------------------------|-----------------------------|--------------------|--------------------------------|--------------------|------------------|-------------------|-------------------|---------------------|
|   | Local<br>Option<br>Sales Tax | 2005 CDBG<br>Housing<br>Rehabil-<br>itation | Emergency       | CIDC<br>Revolving<br>Loan | Community<br>Center<br>2007 | Bike Trail<br>2007 | Street Shop<br>Project<br>2007 | Airport<br>Project | Train<br>2007    | Project<br>Design | Debt<br>Service   |                     |
| <b>Receipts</b>                                       |                              |   |                 |                           |                             |                    |                                |                    |                  |                   |                   |                     |
| Property tax .....                                    | \$ —                         | \$ —  | \$ 23,114       | \$ —                      | \$ —                        | \$ —               | \$ —                           | \$ —               | \$ —             | \$ —              | \$ 236,345        | \$ 259,459          |
| Other city tax .....                                  | 295,318                      | —   | 645             | —                         | —                           | —                  | —                              | —                  | —                | —                 | 6,322             | 302,285             |
| Use of money and property .....                       | 8,112                        | —   | 42              | 5,233                     | 8,795                       | 281                | 8,237                          | 135                | 998              | —                 | 4,660             | 36,493              |
| Intergovernmental.....                                | —                            | —   | —               | —                         | —                           | 58,795             | —                              | —                  | —                | —                 | —                 | 58,795              |
| Miscellaneous.....                                    | —                            | —   | —               | 21,553                    | —                           | 19,000             | —                              | —                  | —                | —                 | —                 | 40,553              |
| <b>Total Receipts.....</b>                            | <b>303,430</b>               | <b>—</b>                                    | <b>23,801</b>   | <b>26,786</b>             | <b>8,795</b>                | <b>78,076</b>      | <b>8,237</b>                   | <b>135</b>         | <b>998</b>       | <b>—</b>          | <b>247,327</b>    | <b>697,585</b>      |
| <b>Disbursements</b>                                  |                              |   |                 |                           |                             |                    |                                |                    |                  |                   |                   |                     |
| Operating   |                              |   |                 |                           |                             |                    |                                |                    |                  |                   |                   |                     |
| Public safety.....                                    | —                            | —   | 2,524           | —                         | —                           | —                  | —                              | —                  | —                | —                 | —                 | 2,524               |
| Culture and recreation.....                           | 108,794                      | —   | —               | —                         | —                           | —                  | —                              | —                  | —                | —                 | —                 | 108,794             |
| Community and economic<br>development.....            | 20,000                       | 8,636                                       | —               | 9,503                     | —                           | —                  | —                              | —                  | —                | —                 | —                 | 38,139              |
| General government .....                              | 268                          | —   | —               | —                         | —                           | —                  | —                              | —                  | —                | —                 | —                 | 268                 |
| Debt service.....                                     | —                            | —   | —               | —                         | —                           | —                  | —                              | —                  | —                | —                 | 244,898           | 244,898             |
| Capital projects.....                                 | —                            | —   | —               | —                         | 67,285                      | 65,090             | 2,940                          | —                  | —                | 2,024             | —                 | 137,339             |
| <b>Total Disbursements.....</b>                       | <b>129,062</b>               | <b>8,636</b>                                | <b>2,524</b>    | <b>9,503</b>              | <b>67,285</b>               | <b>65,090</b>      | <b>2,940</b>                   | <b>—</b>           | <b>—</b>         | <b>2,024</b>      | <b>244,898</b>    | <b>531,962</b>      |
| <b>Receipts Over (Under)<br/>Disbursements .....</b>  | <b>174,368</b>               | <b>(8,636)</b>                              | <b>21,277</b>   | <b>17,283</b>             | <b>(58,490)</b>             | <b>12,986</b>      | <b>5,297</b>                   | <b>135</b>         | <b>998</b>       | <b>(2,024)</b>    | <b>2,429</b>      | <b>165,623</b>      |
| <b>Other Financing Sources (Uses)</b>                 |                              |   |                 |                           |                             |                    |                                |                    |                  |                   |                   |                     |
| Anticipation project note proceeds                    | —                            | —   | —               | —                         | —                           | —                  | —                              | —                  | —                | 2,024             | —                 | 2,024               |
| Transfers in.....                                     | —                            | 10,562                                      | —               | —                         | —                           | —                  | —                              | 134                | —                | —                 | 29,532            | 40,228              |
| Transfers out .....                                   | (44,472)                     | —   | (21,277)        | —                         | —                           | —                  | —                              | —                  | —                | —                 | —                 | (65,749)            |
| <b>Total Other Financing<br/>Sources (Uses) .....</b> | <b>(44,472)</b>              | <b>10,562</b>                               | <b>(21,277)</b> | <b>—</b>                  | <b>—</b>                    | <b>—</b>           | <b>—</b>                       | <b>134</b>         | <b>—</b>         | <b>2,024</b>      | <b>29,532</b>     | <b>(23,497)</b>     |
| <b>Increase (Decrease) in<br/>Cash Balances.....</b>  | <b>129,896</b>               | <b>1,926</b>                                | <b>—</b>        | <b>17,283</b>             | <b>(58,490)</b>             | <b>12,986</b>      | <b>5,297</b>                   | <b>269</b>         | <b>998</b>       | <b>—</b>          | <b>31,961</b>     | <b>142,126</b>      |
| Cash Balances - Beginning<br>of Year.....             | 255,303                      | (1,926)                                     | —               | 29,867                    | 316,372                     | (109)              | 284,861                        | 4,868              | 35,573           | —                 | 117,828           | 1,042,637           |
| <b>Cash Balances - End of Year ...</b>                | <b>\$ 385,199</b>            | <b>\$ —</b>                                 | <b>\$ —</b>     | <b>\$ 47,150</b>          | <b>\$ 257,882</b>           | <b>\$ 12,877</b>   | <b>\$ 290,158</b>              | <b>\$ 5,137</b>    | <b>\$ 36,571</b> | <b>\$ —</b>       | <b>\$ 149,789</b> | <b>\$ 1,184,763</b> |
| <b>Cash Basis Fund Balances</b>                       |                              |   |                 |                           |                             |                    |                                |                    |                  |                   |                   |                     |
| Reserved  |                              |   |                 |                           |                             |                    |                                |                    |                  |                   |                   |                     |
| Debt service .....                                    | \$ —                         | \$ —  | \$ —            | \$ —                      | \$ —                        | \$ —               | \$ —                           | \$ —               | \$ —             | \$ —              | \$ 149,789        | \$ 149,789          |
| Unreserved  |                              |   |                 |                           |                             |                    |                                |                    |                  |                   |                   |                     |
| Special revenue funds.....                            | 385,199                      | —   | —               | 47,150                    | —                           | —                  | —                              | —                  | —                | —                 | —                 | 432,349             |
| Capital projects funds.....                           | —                            | —   | —               | —                         | 257,882                     | 12,877             | 290,158                        | 5,137              | 36,571           | —                 | —                 | 602,625             |
| <b>Total Cash Basis Fund<br/>Balances .....</b>       | <b>\$ 385,199</b>            | <b>\$ —</b>                                 | <b>\$ —</b>     | <b>\$ 47,150</b>          | <b>\$ 257,882</b>           | <b>\$ 12,877</b>   | <b>\$ 290,158</b>              | <b>\$ 5,137</b>    | <b>\$ 36,571</b> | <b>\$ —</b>       | <b>\$ 149,789</b> | <b>\$ 1,184,763</b> |

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

Year Ended June 30, 2008

|  | Municipal Sanitary Sewer Utility Revenue Bond and Interest Sinking | Municipal Sanitary Sewer Utility Revenue Debt Service Reserve | Municipal Sanitary Sewer Utility and Water Utility Capital Improvements | Yard Waste and Recycling | Water Meter Deposits | Total             |
|--|--|---|---|--------------------------|----------------------|-------------------|
| <b>Operating Receipts</b>                                  |  |   |   |                          |                      |                   |
| Charges for service .....                                  | \$ —   | \$ —  | \$ 33,659   | \$ 35,142                | \$ —                 | \$ 68,801         |
| Miscellaneous .....  | —  | —   | —   | —                        | 10,941               | 10,941            |
| <b>Total Operating Receipts</b> .....                      | <b>—</b>   | <b>—</b>  | <b>33,659</b>   | <b>35,142</b>            | <b>10,941</b>        | <b>79,742</b>     |
| <b>Operating Disbursements</b>                             |  |   |   |                          |                      |                   |
| Business-type activities .....                             | —  | —   | 4,309   | 24,310                   | 11,790               | 40,409            |
| <b>Operating Receipts Over (Under) Disbursements</b> ..... | <b>—</b>   | <b>—</b>  | <b>29,350</b>   | <b>10,832</b>            | <b>(849)</b>         | <b>39,333</b>     |
| <b>Nonoperating Receipts (Disbursements)</b>               |  |   |   |                          |                      |                   |
| Interest on investments .....                              | 1,673  | 3,823   | 2,807   | 2,341                    | 1,544                | 12,188            |
| Debt service .....   | (45,445)   | —   | —   | —                        | —                    | (45,445)          |
| <b>Net Nonoperating Receipts (Disbursements)</b> .....     | <b>(43,772)</b>  | <b>3,823</b>  | <b>2,807</b>  | <b>2,341</b>             | <b>1,544</b>         | <b>(33,257)</b>   |
| <b>Receipts Over (Under) Disbursements</b> .....           | <b>(43,772)</b>  | <b>3,823</b>  | <b>32,157</b>   | <b>13,173</b>            | <b>695</b>           | <b>6,076</b>      |
| <b>Other Financing Sources (Uses)</b>                      |  |   |   |                          |                      |                   |
| Transfers in .....   | 30,000   | 55,000  | —   | —                        | —                    | 85,000            |
| Transfers out .....  | —  | —   | (2,296)   | (2,887)                  | —                    | (5,183)           |
| <b>Total Other Financing Sources (Uses)</b> .....          | <b>30,000</b>  | <b>55,000</b>   | <b>(2,296)</b>  | <b>(2,887)</b>           | <b>—</b>             | <b>79,817</b>     |
| <b>Increase (Decrease) in Cash Balances</b> .....          | <b>(13,772)</b>  | <b>58,823</b>   | <b>29,861</b>   | <b>10,286</b>            | <b>695</b>           | <b>85,893</b>     |
| Cash Balance - Beginning of Year .....                     | 60,533   | 126,752   | 85,918  | 90,048                   | 54,793               | 418,044           |
| <b>Cash Balance - End of Year</b> .....                    | <b>\$ 46,761</b>   | <b>\$ 185,575</b>   | <b>\$ 115,779</b>   | <b>\$ 100,334</b>        | <b>\$ 55,488</b>     | <b>\$ 503,937</b> |
| <b>Cash Basis Fund Balances</b>                            |  |   |   |                          |                      |                   |
| Reserved .....   | \$ 46,761  | \$ 185,575  | \$ —  | \$ —                     | \$ —                 | \$ 232,336        |
| Unreserved .....   | —  | —   | 115,779   | 100,334                  | 55,488               | 271,601           |
| <b>Total Cash Basis Fund Balances</b> .....                | <b>\$ 46,761</b>   | <b>\$ 185,575</b>   | <b>\$ 115,779</b>   | <b>\$ 100,334</b>        | <b>\$ 55,488</b>     | <b>\$ 503,937</b> |

# Statement of Indebtedness

Year Ended June 30, 2008

| Obligation                                    | Amount Originally Issued | Date of Issue | Interest Rates | Balance Beginning of Year  | Issued During Year | Redeemed During Year     | Balance End of Year        | Interest Paid            | Interest Due and Unpaid |
|---|--------------------------|---------------|----------------|----------------------------|--------------------|--------------------------|----------------------------|--------------------------|-------------------------|
| <b>General Obligation Bonds</b>               |                          |               |                |                            |                    |                          |                            |                          |                         |
| Corporate purpose.....                        | \$ 290,000               | 12-1-01       | 3.75 - 3.90%   | <u>\$ 170,000</u>          | <u>\$ —</u>        | <u>\$ 55,000</u>         | <u>\$ 115,000</u>          | <u>\$ 6,410</u>          | <u>\$ —</u>             |
| <b>General Obligation Notes</b>               |                          |               |                |                            |                    |                          |                            |                          |                         |
| Capital Loan Notes                            |                          |               |                |                            |                    |                          |                            |                          |                         |
| Series 2001A .....                            | 500,000                  | 8-1-01        | 5.65 - 5.75%   | \$ 370,000                 | \$ —               | \$ 85,000                | \$ 285,000                 | \$ 21,015                | \$ —                    |
| Series 2001B .....                            | 253,000                  | 8-1-01        | 4.30           | 194,000                    | —                  | 10,000                   | 184,000                    | 8,342                    | —                       |
| Series 2007 .....                             | 1,885,000                | 1-8-07        | 3.60 - 4.40    | <u>1,885,000</u>           | <u>—</u>           | <u>60,000</u>            | <u>1,825,000</u>           | <u>104,649</u>           | <u>—</u>                |
| <b>Total General Obligation Notes .....</b>   |                          |               |                | <b><u>\$ 2,449,000</u></b> | <b><u>\$ —</u></b> | <b><u>\$ 155,000</u></b> | <b><u>\$ 2,294,000</u></b> | <b><u>\$ 134,006</u></b> | <b><u>\$ —</u></b>      |
| <b>Sewer Revenue Capital Loan Notes .....</b> | \$ 600,000               | 8-1-01        | 4.30%          | <u>\$ 470,000</u>          | <u>\$ —</u>        | <u>\$ 25,000</u>         | <u>\$ 445,000</u>          | <u>\$ 20,210</u>         | <u>\$ —</u>             |
| <b>Anticipation Project Note</b>              |                          |               |                |                            |                    |                          |                            |                          |                         |
| Sewer Revenue Capital Loan Note .....         | \$ 26,900*               | 3-25-08       | 0.00%          | <u>\$ —</u>                | <u>\$ 2,024</u>    | <u>\$ —</u>              | <u>\$ 2,024</u>            | <u>\$ —</u>              | <u>\$ —</u>             |
| <b>Interfund Loans</b>                        |                          |               |                |                            |                    |                          |                            |                          |                         |
| T.I.F. ....                                   | \$ 123,780               | 8-21-06       | 5.00%          | <u>\$ 123,780</u>          | <u>\$ —</u>        | <u>\$ 123,780</u>        | <u>\$ —</u>                | <u>\$ 6,114</u>          | <u>\$ —</u>             |

\*Maximum available

## Schedule of Bond and Note Maturities

At June 30, 2008

| Year<br>Ending<br>June 30, | General Obligation Bonds |                          |
|----------------------------|--------------------------|--------------------------|
|                            | Corporate Purpose        |                          |
|                            | Issued December 1, 2001  |                          |
|                            | Interest<br>Rates        | Amount                   |
| 2009                       | 3.75%                    | \$ 55,000                |
| 2010                       | 3.90                     | <u>60,000</u>            |
| <b>Total</b>               |                          | <b><u>\$ 115,000</u></b> |

| Year<br>Ending<br>June 30, | General Obligation Notes |                          |                       |                          |                        |                            | Total                      |
|----------------------------|--------------------------|--------------------------|-----------------------|--------------------------|------------------------|----------------------------|----------------------------|
|                            | Capital Loan Notes       |                          |                       |                          |                        |                            |                            |
|                            | Series 2001A             |                          | Series 2001B          |                          | Series 2007            |                            |                            |
|                            | Issued August 1, 2001    | Issued August 1, 2001    | Issued August 1, 2001 | Issued August 1, 2001    | Issued January 8, 2007 | Issued January 8, 2007     |                            |
|                            | Interest<br>Rates        | Amount                   | Interest<br>Rates     | Amount                   | Interest<br>Rates      | Amount                     |                            |
| 2009                       | 5.65%                    | \$ 90,000                | 4.30%                 | \$ 11,000                | 3.60%                  | \$ 120,000                 | \$ 221,000                 |
| 2010                       | 5.75                     | 95,000                   | 4.30                  | 11,000                   | 3.65                   | 120,000                    | 226,000                    |
| 2011                       | 5.75                     | 100,000                  | 4.30                  | 12,000                   | 3.65                   | 125,000                    | 237,000                    |
| 2012                       |                          | —                        | 4.30                  | 12,000                   | 3.70                   | 125,000                    | 137,000                    |
| 2013                       |                          | —                        | 4.30                  | 13,000                   | 3.75                   | 125,000                    | 138,000                    |
| 2014                       |                          | —                        | 4.30                  | 13,000                   | 3.80                   | 130,000                    | 143,000                    |
| 2015                       |                          | —                        | 4.30                  | 14,000                   | 3.85                   | 135,000                    | 149,000                    |
| 2016                       |                          | —                        | 4.30                  | 15,000                   | 3.90                   | 145,000                    | 160,000                    |
| 2017                       |                          | —                        | 4.30                  | 15,000                   | 3.95                   | 145,000                    | 160,000                    |
| 2018                       |                          | —                        | 4.30                  | 16,000                   | 4.00                   | 60,000                     | 76,000                     |
| 2019                       |                          | —                        | 4.30                  | 17,000                   | 4.00                   | 65,000                     | 82,000                     |
| 2020                       |                          | —                        | 4.30                  | 17,000                   | 4.00                   | 65,000                     | 82,000                     |
| 2021                       |                          | —                        | 4.30                  | 18,000                   | 4.20                   | 70,000                     | 88,000                     |
| 2022                       |                          | —                        |                       | —                        | 4.20                   | 75,000                     | 75,000                     |
| 2023                       |                          | —                        |                       | —                        | 4.30                   | 75,000                     | 75,000                     |
| 2024                       |                          | —                        |                       | —                        | 4.30                   | 80,000                     | 80,000                     |
| 2025                       |                          | —                        |                       | —                        | 4.40                   | 80,000                     | 80,000                     |
| 2026                       |                          | —                        |                       | —                        | 4.40                   | <u>85,000</u>              | <u>85,000</u>              |
| <b>Total</b>               |                          | <b><u>\$ 285,000</u></b> |                       | <b><u>\$ 184,000</u></b> |                        | <b><u>\$ 1,825,000</u></b> | <b><u>\$ 2,294,000</u></b> |

## Schedule of Bond and Note Maturities

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At June 30, 2008

| Year<br>Ending<br>June 30, | Sewer Revenue<br>Capital Loan Notes<br>Issued August 1, 2001 |                          |
|----------------------------|--|--------------------------|
|                            | Interest<br>Rates  | Amount                   |
| 2009                       | 4.30%  | \$ 26,000                |
| 2010                       | 4.30   | 27,000                   |
| 2011                       | 4.30   | 29,000                   |
| 2012                       | 4.30   | 30,000                   |
| 2013                       | 4.30   | 31,000                   |
| 2014                       | 4.30   | 32,000                   |
| 2015                       | 4.30   | 34,000                   |
| 2016                       | 4.30   | 35,000                   |
| 2017                       | 4.30   | 37,000                   |
| 2018                       | 4.30   | 38,000                   |
| 2019                       | 4.30   | 40,000                   |
| 2020                       | 4.30   | 42,000                   |
| 2021                       | 4.30   | <u>44,000</u>            |
| <b>Total</b>               |  | <b><u>\$ 445,000</u></b> |

## Schedule of Receipts by Source and Disbursements by Function All Governmental Funds

Years Ended June 30, 2005 Through 2008

|  | 2008                       | 2007                       | 2006                       | 2005                       |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| <b>Receipts</b>                            |                            |                            |                            |                            |
| Property tax .....                         | \$ 1,496,480               | \$ 1,300,355               | \$ 1,218,728               | \$ 1,254,449               |
| T.I.F. collections .....                   | 129,468                    | 297,248                    | 476,662                    | 352,806                    |
| Other city tax .....                       | 373,542                    | 363,312                    | 326,821                    | 280,733                    |
| Licenses and permits.....                  | 13,536                     | 13,740                     | 14,739                     | 14,931                     |
| Use of money and property .....            | 136,944                    | 107,094                    | 82,320                     | 59,135                     |
| Intergovernmental.....                     | 1,351,428                  | 784,852                    | 400,676                    | 432,214                    |
| Charges for service .....                  | 871,211                    | 846,977                    | 830,777                    | 830,207                    |
| Special assessments.....                   | 1,435                      | 2,281                      | 13,269                     | 18,818                     |
| Miscellaneous.....                         | <u>136,971</u>             | <u>149,997</u>             | <u>291,877</u>             | <u>125,697</u>             |
| <b>Total Receipts .....</b>                | <b><u>\$ 4,511,015</u></b> | <b><u>\$ 3,865,856</u></b> | <b><u>\$ 3,655,869</u></b> | <b><u>\$ 3,368,990</u></b> |
| <b>Disbursements</b>                       |                            |                            |                            |                            |
| Operating                                  |                            |                            |                            |                            |
| Public safety.....                         | \$ 637,709                 | \$ 629,691                 | \$ 631,399                 | \$ 752,035                 |
| Public works.....                          | 997,573                    | 1,057,308                  | 935,299                    | 961,408                    |
| Health and social services .....           | 3,929                      | 3,929                      | 2,953                      | 2,952                      |
| Culture and recreation .....               | 958,363                    | 888,419                    | 995,473                    | 802,011                    |
| Community and economic<br>development..... | 608,006                    | 533,219                    | 211,124                    | 481,581                    |
| General government .....                   | 232,533                    | 220,785                    | 281,937                    | 223,228                    |
| Debt service.....                          | 357,027                    | 335,041                    | 644,290                    | 558,279                    |
| Capital projects.....                      | <u>883,829</u>             | <u>258,537</u>             | <u>514</u>                 | <u>12,253</u>              |
| <b>Total Disbursements .....</b>           | <b><u>\$ 4,678,969</u></b> | <b><u>\$ 3,926,929</u></b> | <b><u>\$ 3,702,989</u></b> | <b><u>\$ 3,793,747</u></b> |

# Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

| Federal Grantor/<br>Pass-Through Grantor/Program or Cluster Title                                      | Federal<br>CFDA<br>Number | Agency<br>Pass-<br>Through<br>Number | Federal<br>Expenditures  |
|--|---------------------------|--------------------------------------|--------------------------|
| <b>U.S. Department of Housing and Urban<br/>Development - Indirect</b>                                 |                           |                                      |                          |
| Iowa Department of Economic Development<br>Community Development Block Grants/<br>State's Program..... | 14.228                    | 06-WS-021                            | \$ 390,351               |
| Community Development Block Grants/<br>State's Program.....  | 14.228                    | 06-CF-007-05                         | 511,350                  |
| Community Development Block Grants/<br>State's Program.....  | 14.228                    | 07-ED-001                            | <u>50,000</u>            |
| <b>Total.....</b>  |                           |                                      | <b><u>\$ 951,701</u></b> |

## Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Cresco and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

## Subrecipients

Of the federal expenditures presented in this schedule, the City of Cresco provided federal awards to subrecipients as follows:

| Program Title  | Federal<br>CFDA Number | Amount Provided<br>to Subrecipients |
|--|------------------------|-------------------------------------|
| Community Development Block Grants/<br>State's Program | 14.228                 | \$511,350                           |

## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters**

---

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Cresco, Iowa, for the year ended June 30, 2008, and have issued our report thereon dated September 23, 2008. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Cresco, 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 our opinion on the effectiveness of the City of Cresco, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Cresco, 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 material weaknesses.

A control deficiency exists when the design or operation of the 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 Cresco, Iowa's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Cresco, Iowa's financial statements that is more than inconsequential will not be prevented or detected by the City of Cresco, Iowa's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs 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 a material misstatement of the financial statements will not be prevented or detected by the City of Cresco, Iowa's 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. We believe the significant deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs are material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Cresco, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 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 or other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Cresco, Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Cresco, Iowa's responses and, accordingly, we express no opinion on them.

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

*HOGAN - HANSEN*

HOGAN - HANSEN

Mason City, Iowa  
September 23, 2008

**Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance**

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

**Compliance**

We have audited the compliance of the City of Cresco 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 its major federal program for the year ended June 30, 2008. The City of Cresco's major federal program is identified in the summary of independent 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 its major federal program is the responsibility of the City of Cresco's management. Our responsibility is to express an opinion on the City of Cresco's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, 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, *Audits of States, Local Governments and Nonprofit Organizations*. Those standards and provisions 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 Cresco'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 on the City of Cresco's compliance with those requirements.

In our opinion, the City of Cresco complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

### **Internal Control Over Compliance**

The management of the City of Cresco 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 Cresco'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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses. We believe the significant deficiencies described in Part III of the accompanying Schedule of Findings and Questioned Costs are material weaknesses.

The City of Cresco's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City's responses, and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Cresco and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*HOGAN - HANSEN*

HOGAN - HANSEN

Mason City, Iowa  
September 23, 2008

# Schedule of Findings and Questioned Costs

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Year Ended June 30, 2008

## Part I: Summary of the Independent Auditor's Results

### Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness identified?

yes       no

Significant deficiency identified not considered to be material weaknesses?

yes       none reported

Noncompliance material to financial statements noted?

yes       no

### Federal Awards

Internal control over major programs:

Material weakness identified?

yes       no

Significant deficiency identified not considered to be material weakness?

yes       none reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?

yes       no

Identification of major programs:

### **CFDA Numbers**

### **Name of Federal Program or Cluster**

14.228

Community Development Block Grant/State's Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes       no

# Schedule of Findings and Questioned Costs

---

Year Ended June 30, 2008

## **Part II: Findings Related to the General-Purpose Financial Statements:**

### **Instances of Noncompliance:**

There were no current year instances of noncompliance noted.

### **Significant Deficiencies:**

Prior year significant deficiencies have not been resolved and have been repeated below as items 08-II-IC-1 and 08-II-IC-2.

#### **08-II-IC-1 Segregation of Duties**

**Prior Year Finding and Recommendation** - The concentration of closely related duties and responsibilities such as the handling of cash receipts and disbursements, recording of the cash transactions and preparing various reports by a small staff makes it impossible to establish an adequate system of automatic checks for good internal control. We realize the condition will be difficult to improve on without hiring additional staff. However, we do believe it is important that the Council be aware this condition does exist and make changes when appropriate and cost effective.

**Current Year Finding** - We found that the same conditions existed.

**Auditor's Recommendation** - We reiterate our prior year recommendation.

**City's Response** - Council is aware of the condition.

**Conclusion** - Response accepted.

#### **08-II-IC-2 Bank Reconciliation and Journal Entries Review**

**Prior Year Finding and Recommendation** - Bank reconciliations and journal entries are not being reviewed by a member of management (for example, the Mayor or a member of the City Council). These are procedures that had been in place in prior years. We recommend that the bank reconciliations and journal entries be reviewed by management each month in order to improve the City's internal controls and safeguard assets.

**Current Year Finding** - We found that the same conditions existed.

**Auditor's Recommendation** - We reiterate our prior year recommendation.

**City's Response** - Management will re-implement the review of the monthly bank reconciliations and of all journal entries being processed.

**Conclusion** - Response accepted.

## Schedule of Findings and Questioned Costs

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Year Ended June 30, 2008

### 08-II-IC-3 Financial Statement Preparation

**Current Year Finding** - The City does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with the cash basis of accounting. As is inherent in many entities of this size, the City has management and employees who, while knowledgeable and skillful, do not have the time to maintain the current knowledge and expertise to fully prepare financial statements and the related disclosures.

**Auditor's Recommendation** - We recommend obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses.

**City's Response** - We will consider obtaining additional knowledge.

**Conclusion** - Response accepted.

### 08-II-IC-4 Written Procedures

**Current Year Finding** - The City does not have written procedures describing internal controls and business practices. Management should have a written policy covering job descriptions and procedures, including required controls and business practices. These would provide documentation of job requirements and be the basis for employees to process transactions through the City's internal controls.

**Auditor's Recommendation** - The City should draft written procedures covering controls and business practices, including job descriptions.

**City's Response** - We will work on writing procedures with an estimated completion date of June 30, 2009.

**Conclusion** - Response accepted.

## **Part III: Findings and Questioned Costs For Federal Awards:**

### **Instances of Noncompliance**

There were no reported instances of noncompliance.

### **Significant Deficiencies**

#### **08-III-IC-1 Segregation of Duties Over Federal Revenue and Expenditures**

Adequate control procedures through the segregation of employee duties is difficult to achieve due to the limited number of staff administering grants and performing accounting functions. See Finding 08-II-IC-1 for additional information.

# Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

## 08-III-IC-2 Bank Reconciliation and Journal Entry Review

Bank reconciliations and journal entries were not being reviewed by a member of management. See Finding 08-II-IC-2 for additional information.

## 08-III-IC-3 Written Procedures

The City does not have written internal control policies and procedures to govern the processing of accounting transactions. See Finding 08-II-IC-4 for additional information.

### Part IV: Other Findings Related to Statutory Reporting:

**08-IV-A Certified Budget** - Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in the community and economic development and debt service functions. 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. It was also noted that the City had two funds that were budgeted in the wrong function. Additionally, the budget was filed with the county one day after it was due.

**Auditor's Recommendation** - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. In addition, the budget should be filed within the required timeframe.

**City's Response** - The budget will be amended before it is exceeded in the future, if necessary. Both funds had been assigned incorrect fund numbers, one fund is now closed, and the other fund number will be changed and properly budgeted. We will also file the budget in a timely manner.

**Auditor's Conclusion** - Response accepted.

**08-IV-B Questionable Disbursements** - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion.

**08-IV-C Travel Expense** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

**08-IV-D Business Transactions** - Business transactions between the City of Cresco and City officials which may appear to be conflicts of interest are as follows:

| <b>Name, Title and Business Connection</b>   | <b>Transaction Description</b> | <b>Amount</b> |
|--|--------------------------------|---------------|
| John Loveless, Council Member,<br>Part owner of Cresco Shopper                     | Advertising and supplies       | \$ 1,827      |
| Jeffrey Holmstrom, Volunteer Fireman,<br>Owner of Computer Professionals Unlimited | Computer sales and service     | 2,874         |

## Schedule of Findings and Questioned Costs

---

Year Ended June 30, 2008

In accordance with Chapter 362.5 of the Code of Iowa, the transactions with Council Member Loveless and Volunteer Fireman Jeffrey Holmstrom may represent a conflict of interest since a competitive bidding process was not utilized and the total of the transactions was in excess of \$1,500.

**Auditor's Recommendation** - The City should use a competitive bidding process when practicable.

**City's Response** - The transactions were normal expenses (advertising, supply costs, equipment rental and computer services). A competitive bidding process is not always practical, however, we will endeavor to competitively bid the work when practicable in the future.

**Auditor's Conclusion** - Response accepted.

**08-IV-E Bond Coverage** - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

**08-IV-F Council Minutes** - Minutes of Council proceedings were published within 15 days as required by Chapter 372.13(6) of the Code of Iowa.

**08-IV-G Deposits and Investments** - We noted no instances of noncompliance with deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

**08-IV-H Financial Condition** - No funds had a deficit balance at June 30, 2008.

**08-IV-I Payment of General Obligation Bonds** - Certain general obligation bonds were paid from the Urban Renewal T.I.F. Area Fund. Chapter 384.4 of the Code of Iowa states, in part, "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the Debt Service Fund."

**Auditor's Recommendation** - The City should transfer funds from the Urban Renewal T.I.F. Area Fund to the Debt Service Fund. Payments of the bonds should then be disbursed from the Debt Service Fund.

**City's Response** - We will transfer in the future as recommended.

**Auditor's Conclusion** - Response accepted.