

CITY OF CRESTON, IOWA  
INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
COMMENTS AND RECOMMENDATIONS  
Year Ended June 30, 2010

CITY OF CRESTON, IOWA  
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CITY OF CRESTON, IOWA  
CITY OFFICIALS  
June 30, 2010

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Warren Woods	Mayor	January 1, 2012
Larry Wynn	Council Member	January 1, 2012
Larry Wagner	Council Member	January 1, 2014
Randy White	Council Member	January 1, 2014
Terri Koets	Council Member	January 1, 2014
Loyal Winborn	Council Member	January 1, 2012
Betty Shelton	Council Member	January 1, 2014
Marsha Wilson	Council Member	January 1, 2012
Michael Taylor	City Administrator	---
Lisa Williamson	City Clerk	January 1, 2011
Arnold O. Kenyon, III	City Attorney	January 1, 2011

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements, of the governmental activities, the business type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Creston, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Creston, Iowa's officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Creston, Iowa, as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

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

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2010, on our consideration of City of Creston, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 27 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Creston, Iowa's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our 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.

*Drapen, Smidgrasso, Mikkelsen + Co., P.C.*

October 15, 2010

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Creston provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ending June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **Financial Highlights**

Government Activities total revenues increased by \$496,098 from the previous fiscal year. Tax increment financing collections, intergovernmental, and other city taxes all increased. Use of money and property, miscellaneous revenue, license and permits, and charges for services decreased.

Government Activities total expenditures decreased by \$77,842. Public Safety, Public Works, and Community/Recreation Development decreased. Public Safety decreased by \$644,450 because no capital equipment was purchased. The Culture and Recreation activity decreased by \$136,501 and General Government increased by \$679,362.

The City's total cash basis net assets increased by \$909,189. The Debt Service Fund balance increased by \$20,236 and other Non-Governmental Funds increased by \$26,901. The Employee Benefits Fund had a decrease of \$24,241. The Road Use Fund showed an increase of \$33,581. The Road Use Fund continues to receive some financial assistance, as does the Sewer Fund, due to the passage of the Local Option Sales Tax, which enabled the City to finance street and sewer repair projects. Local Option Sales Tax collections amounted to \$893,314. Anticipated Local Option Sales Tax Receipts for the following 12 months are estimated to be \$821,000. One-half of the total receipts for the Local Option Sales Tax are used for property tax relief and the remaining amounts fund street and sewer improvement projects.

### **Using This Annual Report**

The annual report consists of a series of financial statements as well as other requirements as follows:

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

The Government-wide Financial Statements consist of a statement of activities and changes in cash balances. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

Supplementary Information provides detailed information about the annual budget, non-major governmental funds and debt obligations.

## **Basis of Accounting**

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

## **Reporting the City as a Whole**

The statement of activities and changes in cash balance presents information showing how the City's cash balances changed during the most recent fiscal year.

The City's governmental activities are displayed in the statements of activities and changes in cash balance. Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.

The business type activities of the City include the sanitary and storm sewer systems. These activities are financed primarily by user fees.

## **Fund Financial Statements**

The fund financial statements begin on page 12 and provide detailed information about individual significant funds; not the City as a whole. Some funds are established by State law and by bond covenants. The City can establish other funds to help it control and manage money for particular purposes.

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Government funds include: 1) General Fund, 2) the Special Revenue Funds such as Road Use Tax, Employee Benefits, Local Option Sales Tax and Tax Increment Funds, 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) the Permanent Fund. Governmental Funds are reported on the basis of cash receipts and disbursements. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Financial records and reports are prepared on the basis of when cash is received and disbursed. The government fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs.
2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report the same functions presented as business type activities in the government-wide statement of activities and changes in cash balance. The City maintains one Enterprise Fund to provide separate information for the sewer fund, considered to be a major fund of the City. The Sewer Fund is divided into several sub-funds that include the Sewer Operating Fund, Sewer Debt Service Fund, Sewer Plant Replacement Fund, and the Sewer Stormwater Fund.

### **Government-Wide Financial Analysis**

As noted earlier, the City reports the activities of the funds using the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP). The City does not report capital assets or depreciation on those assets as would be required by GAAP.

#### **Government Activities**

The City's cash balance for governmental activities increased from a year ago, by \$909,189. The analysis below focuses on this change in cash balance and changes in receipts and disbursements from the prior year.

## Change in Cash Balance of Governmental Activities

	<u>2010</u>	<u>2009</u>
Receipts and transfers:		
Program receipts:		
Charges for services and sales	\$ 731,480	\$ 754,752
Intergovernmental revenues	1,964,979	1,877,398
General receipts:		
Property tax	2,206,761	1,834,171
Tax incremental financing collections	830,465	570,169
Other city tax	995,380	938,578
Licenses and permits	45,691	53,262
Use of money and property	138,544	220,911
Special assessments	6,564	3,202
Bond and short term debt proceeds	---	---
Other general receipts	402,807	574,130
Transfers-in	<u>1,913,184</u>	<u>2,159,880</u>
 Total receipts and transfers	 <u>\$ 9,235,855</u>	 <u>\$ 8,986,453</u>
 Disbursements:		
Public safety	\$ 1,291,228	\$ 1,935,678
Public works	1,606,899	1,710,960
Health and social services	---	---
Culture and recreation	579,237	709,738
Community and economic development	34,522	45,807
General government	2,288,799	1,609,437
Debt service	1,088,399	1,060,991
Capital projects	118,361	12,676
Bonds redeemed, refinanced	---	---
Transfers-out	<u>1,319,221</u>	<u>1,469,920</u>
 Total disbursements and transfers	 <u>\$ 8,326,666</u>	 <u>\$ 8,555,207</u>
 Increase (decrease) in cash balance	 \$ 909,189	 \$ 431,246
 Cash balance, beginning of fiscal year	 <u>3,585,755</u>	 <u>3,154,509</u>
 Cash balance, end of fiscal year	 <u>\$ 4,494,944</u>	 <u>\$ 3,585,755</u>

The City's total receipts for governmental activities increased by seven percent (7%) or \$496,098. The total cost of all programs and services decreased by approximately one point one percent (1.1%) or \$77,842, with no new programs added this year. The increase in receipts was due to increase TIF revenue, intergovernmental revenue and other city taxes. The decrease in expenditures was due to public safety, public works and community/economic development.

The City increased the property tax rates in 2010 by approximately nineteen percent (19%). The property tax rate did not increase for the 2011 fiscal year.

The cost of all governmental activities this year was \$8,326,666 compared to \$8,555,207 last year. The General Fund showed an increase of \$292,321 from the previous fiscal year.

#### Business Type Activities

	<u>2010</u>	<u>2009</u>
Receipts		
Program receipts:		
Charges for services and sales	\$ 1,258,716	\$ 1,349,503
Miscellaneous revenues	133,993	402,817
Bond proceeds	936,579	329,500
Transfers in	<u>---</u>	<u>166,735</u>
Total revenues	<u>\$ 2,329,288</u>	<u>\$ 2,248,555</u>
Disbursements and transfers:		
Personal services	\$ 333,554	\$ 326,322
Services and commodities	176,118	2,592,443
Capital outlay	1,087,421	573,797
Transfers out	<u>593,963</u>	<u>856,695</u>
Total disbursements and transfers	<u>\$ 2,191,056</u>	<u>\$ 4,349,257</u>
Increase (decrease) in cash balance	\$ 138,232	\$(2,100,702)
Cash balance, beginning of fiscal year	<u>1,076,334</u>	<u>3,177,036</u>
Cash balance, end of fiscal year	<u>\$ 1,214,566</u>	<u>\$ 1,076,334</u>

Total business-type activity receipts for the fiscal year were \$2,329,288 compared to \$2,248,555 last fiscal year. The revenue increase was due primarily to bond revenue during the fiscal year. The cash balance increased by approximately \$138,232.

#### **The City's Individual Major Funds**

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's funds is to provide information on near-term inflows, outflows, and cash balances of spendable resources. The following are the major reasons for changes in cash balances from the prior year for the City's major funds.

## Governmental Funds

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the cash balance in the General Fund was \$1,379,240, an increase of \$292,311.

The Road Use Tax Fund cash balance increased from \$326,037 to \$359,618, during the fiscal year. The fund increased because we were unable to complete some street repairs that were planned for the previous year.

The Employee Benefits Fund is a Special Revenue Fund that accounts for revenues received and expenditures paid in support of employee benefits. The types of revenues received are property taxes assessed for the employer contributions for health insurance, FICA, IPERS, and unemployment benefits, in addition to any third party health insurance reimbursements received for major medical claims exceeding the stop loss level established with a third party administrator. Expenditures from the fund include premiums and medical claims paid on behalf of covered employees and the employer contributions for FICA, IPERS, and unemployment benefits. The fund showed a net reduction of \$24,241 during the fiscal year. The reduction is due to increased cost.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation and long-term debt. The City transferred \$1,088,399 from other funds to make payments for these obligations. The fund showed a gain of \$20,236 for the fiscal year just completed and has a fund balance of \$38,004.

## **Proprietary Funds**

The cash balance of the Sewer Fund increased by \$138,232, due to bond revenue. The distribution of Local Option Sales Tax dollars into the Sewer Fund to address the inflow and infiltration order will allow for annual capital improvement projects to continue. I-Jobs funding is also being used toward I & I reduction projects.

## **Budgetary Highlights**

In accordance with the Code of Iowa, the City Council annually adopts a budget following the required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures, ie; a required public notice followed by a public hearing. Over the course of the year, the City amended its operating budget twice. The amendments were approved on December 15, 2009 and May 25, 2010 and resulted in an increase in operating disbursements related to a budget overrun of \$2,661,941 in various departmental budgets due primarily to sewer repair projects, Cottonwood Road, snow removal, maintenance and utility charges. The amendment also included a projected increase in revenues of \$2,542,520 primarily consists of receipt of grant pass through for Water Works, miscellaneous revenue and grants. Even with the amendments, the City exceeded the budget for Debt Service.

## Debt Administration

At year-end, the City had \$6,813,279 in bonds and other long-term debt compared to \$6,522,157 year as shown below.

### Outstanding Debt at Year End

	<u>2010</u>	<u>2009</u>
Refunding bond – GO bonds callable in June 1, 2008	\$1,455,000	\$1,590,000
General Obligation Capital Loan Note, Series 2007	100,000	200,000
General Obligation Capital Loan Note, Series 2008	2,140,000	2,340,000
State Revolving Fund Wastewater Bonds	2,672,579	1,990,000
Fire truck loan	---	---
Iowa Department of Transportation – no interest loan	---	101,128
Park Maintenance Building Loan	---	18,600
Sewer Jet Truck	235,358	282,429
Street Department Trucks	<u>210,342</u>	<u>---</u>
Total	<u>\$6,813,279</u>	<u>\$6,522,157</u>

The City Debt Service Levy for the fiscal year ending June 30, 2010 was \$20,000; Local Option Sales Tax receipts were used for property tax relief and reduced this tax.

The City's general obligation rating continues to be strong. The 1999 bond issue was rated AAA and a rating of A3 was given on both the 1986 and 1993 bond issues. The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to five percent (5%) of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,695,000 is well below the City's \$15,113,951 legal debt limit.

More detailed information about the City's long-term liabilities is presented in Note 3 to the financial statements.

## Economic Factors and Next Year's Budget and Rates

The City's elected and appointed officials and citizens considered many factors when setting the 2011 fiscal year budget, tax rates, and fees that will be charged for various City activities. In addition, return on investments, fuel costs, and the costs of employee benefits are primary concerns in setting a budget.

These factors all contributed when adopting the fiscal year 2011 budget. Amounts available for appropriations in the budget are \$21,581,417. This amount includes all Business Type Activities, including the Sewer and Water Department expenditures. Steps implemented by the City, including the careful utilization of Local Option Sales Tax receipts, increasing certain fees, transferring costs across funds, and reducing the costs of the delivery of services allowed the City to maintain fund balances in the fiscal year 2010 budget. The property tax rate of \$13.85255 for the fiscal year ending June 30, 2011 is the same as the current fiscal year.

### **Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact Michael A. Taylor, Creston City Administrator, 116 West Adams Street, P.O. Box 449, Creston, Iowa 50801.

## FINANCIAL STATEMENTS

CITY OF CRESTON, IOWA  
 STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
 As of and for the Year Ended June 30, 2010

Exhibit A

	<u>Disbursements</u>	<u>PROGRAM RECEIPTS</u>		
		<u>Charges For Services</u>	<u>Operating Grants Contributions, and Restricted Interest</u>	<u>Capital Grants Contributions and Restricted Interest</u>
<b>FUNCTIONS/PROGRAMS:</b>				
Governmental activities:				
Public safety	\$ 1,291,228	\$ 187,922	\$ 21,982	\$ 1,299
Public works	1,606,899	668,566	780,790	60,232
Health and social services	-	-	-	-
Culture and recreation	579,237	112,290	136,982	-
Community/economic development	34,522	-	-	-
General government	2,288,799	285,418	694,153	-
Debt service	1,088,399	-	-	-
Capital projects	118,361	-	-	73,027
Total governmental activities	<u>\$ 7,007,445</u>	<u>\$ 1,254,196</u>	<u>\$ 1,633,907</u>	<u>\$ 134,558</u>
Business type activities:				
Sewer	\$ 1,597,093	\$ 1,258,716	\$ -	\$ 124,094
Total business type activities	<u>\$ 1,597,093</u>	<u>\$ 1,258,716</u>	<u>\$ -</u>	<u>\$ 124,094</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u><u>\$ 8,604,538</u></u>	<u><u>\$ 2,512,912</u></u>	<u><u>\$ 1,633,907</u></u>	<u><u>\$ 258,652</u></u>
<b>COMPONENT UNIT:</b>				
Water Works	<u>\$ 8,742,398</u>	<u>\$ 3,798,980</u>	<u>\$ -</u>	<u>\$ 4,259,211</u>
<b>GENERAL RECEIPTS:</b>				
Property taxes levied for:				
General purposes				
Tax incremental financing				
Debt service				
Hotel/motel sales tax				
Local option sales tax				
Grants and contributions not restricted				
Interest on investments				
Bond/note proceeds				
Miscellaneous				
Sale of assets				
Transfers				
<b>TOTAL GENERAL RECEIPTS</b>				
<b>CHANGE IN CASH BASIS NET ASSETS</b>				
<b>CASH BASIS NET ASSETS, BEGINNING OF YEAR</b>				
<b>CASH BASIS NET ASSETS, END OF YEAR</b>				
<b>CASH BASIS NET ASSETS:</b>				
Restricted				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
<b>TOTAL CASH BASIS NET ASSETS</b>				

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

NET (DISBURSEMENTS) RECEIPTS AND CHANGES

Governmental Activities	Business Type Activities	Total	Component Unit Water Works
\$ (1,080,025)	\$ -	\$ (1,080,025)	\$ -
(97,311)	-	(97,311)	-
-	-	-	-
(329,965)	-	(329,965)	-
(34,522)	-	(34,522)	-
(1,309,228)	-	(1,309,228)	-
(1,088,399)	-	(1,088,399)	-
(45,334)	-	(45,334)	-
<u>\$ (3,984,784)</u>	<u>\$ -</u>	<u>\$ (3,984,784)</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ (214,283)</u>	<u>\$ (214,283)</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ (214,283)</u>	<u>\$ (214,283)</u>	<u>\$ -</u>
<u>\$ (3,984,784)</u>	<u>\$ (214,283)</u>	<u>\$ (4,199,067)</u>	<u>\$ -</u>
			<u>\$ (684,207)</u>
\$ 2,193,089	\$ -	\$ 2,193,089	\$ -
830,465	-	830,465	-
20,236	-	20,236	-
102,066	-	102,066	-
893,314	-	893,314	-
9,637	-	9,637	-
99,307	-	99,307	59,455
-	936,579	936,579	-
142,599	-	142,599	92,457
9,297	9,899	19,196	-
593,963	(593,963)	-	-
<u>\$ 4,893,973</u>	<u>\$ 352,515</u>	<u>\$ 5,246,488</u>	<u>\$ 151,912</u>
<u>\$ 909,189</u>	<u>\$ 138,232</u>	<u>\$ 1,047,421</u>	<u>\$ (532,295)</u>
<u>3,585,755</u>	<u>1,076,334</u>	<u>4,662,089</u>	<u>3,535,215</u>
<u>\$ 4,494,944</u>	<u>\$ 1,214,566</u>	<u>\$ 5,709,510</u>	<u>\$ 3,002,920</u>
\$ 235,661	\$ -	\$ 235,661	
359,618	-	359,618	
439,351	-	439,351	
38,004	62,409	100,413	
2,043,070	830,540	2,873,610	
1,379,240	321,617	1,700,857	
<u>\$ 4,494,944</u>	<u>\$ 1,214,566</u>	<u>\$ 5,709,510</u>	

CITY OF CRESTON, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
As of and for the Year Ended June 30, 2010

Exhibit B

		SPECIAL REVENUE	
	General	Road Use Tax	Employee Benefits
RECEIPTS:			
Property taxes	\$ 1,604,704	\$ -	\$ 422,766
Tax increment financing collections	-	-	-
Other city taxes	102,066	-	-
Licenses and permits	45,691	-	-
Use of money and property	132,869	240	-
Intergovernmental	946,782	780,790	164,380
Charges for service	724,436	7,044	-
Special assessments	6,564	-	-
Miscellaneous	148,471	10,267	111,241
Total receipts	<u>\$ 3,711,583</u>	<u>\$ 798,341</u>	<u>\$ 698,387</u>
DISBURSEMENTS:			
Operating:			
Public safety	\$ 1,176,653	\$ -	\$ -
Public works	754,259	852,640	-
Health and social services	-	-	-
Culture and recreation	504,983	-	-
Community/economic development	34,522	-	-
General government	1,376,210	-	912,589
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>\$ 3,846,627</u>	<u>\$ 852,640</u>	<u>\$ 912,589</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>\$ (135,044)</u>	<u>\$ (54,299)</u>	<u>\$ (214,202)</u>
OTHER FINANCING SOURCES (USES):			
Bond proceeds	\$ -	\$ -	\$ -
Operating transfers in	533,047	87,880	189,961
Operating transfers out	(105,682)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 427,365</u>	<u>\$ 87,880</u>	<u>\$ 189,961</u>
NET CHANGE IN CASH BALANCES	\$ 292,321	\$ 33,581	\$ (24,241)
CASH BALANCES, BEGINNING OF YEAR	<u>1,086,919</u>	<u>326,037</u>	<u>294,454</u>
CASH BALANCES, END OF YEAR	<u>\$ 1,379,240</u>	<u>\$ 359,618</u>	<u>\$ 270,213</u>
CASH BASIS FUND BALANCES:			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	1,379,240	-	-
Special revenue funds	-	359,618	270,213
Capital projects fund	-	-	-
Permanent fund	-	-	-
TOTAL CASH BASIS FUND BALANCES	<u>\$ 1,379,240</u>	<u>\$ 359,618</u>	<u>\$ 270,213</u>

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

<u>SPECIAL REVENUE</u>			Other	
<u>Urban</u>	<u>Local</u>	<u>Debt</u>	<u>Nonmajor</u>	
<u>Renewal Tax</u>	<u>Option</u>	<u>Service</u>	<u>Governmental</u>	<u>Total</u>
<u>Increment</u>	<u>Sales Tax</u>		<u>Funds</u>	
\$ -	\$ -	\$ 20,236	\$ 159,055	\$ 2,206,761
830,465	-	-	-	830,465
-	893,314	-	-	995,380
-	-	-	-	45,691
-	-	-	5,435	138,544
-	-	-	73,027	1,964,979
-	-	-	-	731,480
-	-	-	-	6,564
-	-	-	132,828	402,807
<u>\$ 830,465</u>	<u>\$ 893,314</u>	<u>\$ 20,236</u>	<u>\$ 370,345</u>	<u>\$ 7,322,671</u>
\$ -	\$ -	\$ -	\$ 114,575	\$ 1,291,228
-	-	-	-	1,606,899
-	-	-	-	-
-	-	-	74,254	579,237
-	-	-	-	34,522
-	-	-	-	2,288,799
-	-	1,088,399	-	1,088,399
-	-	-	118,361	118,361
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,088,399</u>	<u>\$ 307,190</u>	<u>\$ 7,007,445</u>
<u>\$ 830,465</u>	<u>\$ 893,314</u>	<u>\$ (1,068,163)</u>	<u>\$ 63,155</u>	<u>\$ 315,226</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	1,088,399	13,897	1,913,184
(597,440)	(565,948)	-	(50,151)	(1,319,221)
<u>\$ (597,440)</u>	<u>\$ (565,948)</u>	<u>\$ 1,088,399</u>	<u>\$ (36,254)</u>	<u>\$ 593,963</u>
\$ 233,025	\$ 327,366	\$ 20,236	\$ 26,901	\$ 909,189
206,326	746,671	17,768	907,580	3,585,755
<u>\$ 439,351</u>	<u>\$1,074,037</u>	<u>\$ 38,004</u>	<u>\$ 934,481</u>	<u>\$ 4,494,944</u>
\$ -	\$ -	\$ 38,004	\$ -	\$ 38,004
-	-	-	-	1,379,240
439,351	1,074,037	-	626,027	2,769,246
-	-	-	72,793	72,793
-	-	-	235,661	235,661
<u>\$ 439,351</u>	<u>\$1,074,037</u>	<u>\$ 38,004</u>	<u>\$ 934,481</u>	<u>\$ 4,494,944</u>

CITY OF CRESTON, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
PROPRIETARY FUND  
As of and for the Year Ended June 30, 2010

	Exhibit C
	Enterprise Fund
	Sewer
OPERATING RECEIPTS:	
Charge for service	\$ 1,258,716
Total operating receipts	\$ 1,258,716
OPERATING DISBURSEMENTS:	
Business type activities	\$ 1,597,093
Total operating disbursements	\$ 1,597,093
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	\$ (338,377)
NON-OPERATING RECEIPTS (DISBURSEMENTS):	
Intergovernmental	\$ 124,094
Uses of money and property	9,899
Total non-operating receipts (disbursements)	\$ 133,993
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ (204,384)
OTHER FINANCING SOURCES (USES):	
Bond proceeds	\$ 936,579
Operating transfers in	-
Operating transfers out	(593,963)
Total other financing sources (uses)	\$ 342,616
NET CHANGE IN CASH BALANCES	\$ 138,232
CASH BALANCES, BEGINNING OF YEAR	1,076,334
CASH BALANCES, END OF YEAR	\$ 1,214,566
CASH BASIS FUND BALANCES:	
Reserved for debt service	\$ 62,409
Reserved for capital replacement	718,267
Reserved for storm water	112,273
Unreserved	321,617
Total cash basis fund balances	\$ 1,214,566

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

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

Note 1. Summary of Significant Accounting Policies

The City of Creston, Iowa is a political subdivision of the State of Iowa located in Union County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

Reporting Entity

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

These financial statements present the City of Creston (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit

The Creston City Water Works is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Water Works is governed by a five-member board appointed by the City Council and Water Works' operating budget is subject to the approval of the City Council.

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

Note 1. Summary of Significant Accounting Policies (continued)

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

Special Revenue:

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

The Employee Benefit Fund is used to account for tax revenue for the use of payments for employee benefits.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and approved expenditures.

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

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary fund:

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

Measurement Focus and Basis of Accounting

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

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

Note 1. Summary of Significant Accounting Policies (continued)

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

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the Debt Service functions.

Note 2. Deposits and Investments

The City's deposits at June 30, 2010, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City's investments are normally categorized to give an indication of the level of risk assumed by the City at year end. However, at June 30, 2010, the City had no investments subject to risk categorization.

Note 3. Bonds Payable and Other Debt

Annual debt service requirements to maturity for general obligation bonds and notes and other debts are as follows:

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

Note 3. Bonds Payable and Other Debt (continued)

Year Ending June 30,	Principal		
	General Obligation Capital Loan Notes	Other Debt	Total
2011	\$ 450,000	\$ 350,276	\$ 800,276
2012	360,000	364,117	724,117
2013	375,000	377,047	752,047
2014	385,000	392,070	777,070
2015	395,000	407,190	802,190
2016-2020	1,730,000	736,000	2,466,000
2021-2025	-	260,000	260,000
2026-2029	-	231,579	231,579
	\$ 3,695,000	\$ 3,118,279	\$ 6,813,279

  

Year Ending June 30,	Interest		
	General Obligation Capital Loan Notes	Other Debt	Total
2011	\$ 130,468	\$ 101,244	\$ 231,712
2012	117,383	89,352	206,735
2013	105,893	76,966	182,859
2014	93,556	64,180	157,736
2015	80,383	50,906	131,289
2016-2020	171,310	121,380	292,690
2021-2025	-	59,880	59,880
2026-2029	-	18,300	18,300
	\$ 698,993	\$ 582,208	\$ 1,281,201

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The resolutions providing for the issuance of the general obligation bonds and notes include the following provisions:

- (a) All taxes collected under levy shall be converted into a special fund in the Debt Service Fund.
- (b) Fund monies are to be used for payment of principal and interest of the bonds only.

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

Note 3. Bonds Payable and Other Debt (continued)

- (c) All proceeds are to be invested in either direct obligations of the U.S. Government or deposited in banks which are members of the FDIC in FDIC insured accounts.
- (d) No use of bond or note proceeds is allowed which will cause them to be classified as arbitrage bonds or notes.
- (e) Project has not been and is not expected to be sold or disposed of prior to bond or note maturity.
- (f) Tax levies of adequate amount are ordered for bond and note repayments.

Other Debt

On November 7, 1995, the City entered into a note agreement with a financial institution for a State Revolving Funds Loan to finance the construction of a sludge lagoon. The total loan award was for \$810,000. The balance at June 30, 2010 is \$274,000. The loan bears interest at 3% and interest payments are due June 1 and December 1. Principal payments are due June 1.

On June 10, 1997, the City entered into a note agreement with a financial institution for a second State Revolving Funds Loan for additional financing of construction of the sludge lagoon and wastewater treatment plant improvements. The total loan award was for \$2,383,000. The balance at June 30, 2010, is \$1,082,000. The loan bears interest at 3% and interest payments are due June 1 and December 1. Principal payments are due June 1.

On March 20, 1998, the City entered into a note agreement with a financial institution for a third State Revolving Funds Loan for additional financing of construction of wastewater treatment plant improvements. The total loan award was for \$829,000. The balance at June 30, 2010, is \$414,000. The loan bears interest at 3% and interest payments are due June 1 and December 1. Principal payments are due June 1.

On September 30, 2009, the City entered into a note agreement with a financial institution for a fourth State Revolving Funds Loan for additional financing of construction of sanitary sewer line improvements. The total loan award was for \$945,000. The balance at June 30, 2010, is \$902,579. The loan bears interest at 3% and interest payments are due June 1 and December 1. Principal payments are due June 1.

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

Note 3. Bonds Payable and Other Debt (continued)

On March 11, 2003, the City entered into an agreement with the Iowa Department of Transportation to finance the City's portion of a road reconstruction project. The City's portion is \$303,382 and is to be paid back to the Department of Transportation in three annual installments with no interest charged. The first payment is to be made when billed by the Department of Transportation upon final completion of the project. The first payment is expected to be due in fiscal year ended June 30, 2008. The balance at June 30, 2010 is \$0.

On July 22, 2005, the City entered into a note agreement with a financial institution for financing the construction of a park maintenance shed at a cost of \$93,000 at 3.65% interest. Interest payments are due June 1 and December 1. Principal payments are due June 1 beginning June 1, 2006. The balance at June 30, 2010 is \$0.

On November 4, 2008, the City entered into a note agreement with a financial institution for financing the cost of a new sewer jet truck at a cost of \$329,500 at 4.45% interest. Interest payments are due June 1 and December 1. Principal payments are due June 1 beginning June 1, 2009. The balance at June 30, 2010 is \$235,538.

On April 27, 2010, the City entered into a note agreement with a financial institution for financing the cost of a new street dump trucks at a cost of \$210,342 at 4.80% interest. Interest payments and principal payments are due April 1 beginning April 1, 2011. The balance at June 30, 2010 is \$210,342.

Note 4. Pension and Retirement Benefits

MFPRSI

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits which are established by State statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, IA 50266.

CITY OF CRESTON, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2010

Note 4. Pension and Retirement Benefit (continued)

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, cannot be less than 17% of earnable compensation. Contribution requirements are established by State statute. The City's contribution to the Plan for the years ended June 30, 2010, 2009, and 2008 was \$177,928, \$176,552, and \$175,536 respectively, which met the required minimum contribution for each year.

IPERS

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

Plan members are required to contribute 4.30% of their annual salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2010, 2009, and 2008 was \$72,138, \$67,230, and \$59,109 respectively, equal to the required contribution for each year.

Note 5. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. They also accumulate a limited amount of sick leave hours which are available for subsequent use only. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 184,189
Sick leave	<u>486,958</u>
Total	<u>\$ 671,147</u>

This liability has been computed based on rates of pay as of June 30, 2010.

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

Note 6. Related Party Transactions

The City has title to all the land and buildings used by the Creston City Water Works. The Mayor appoints and the City Council confirms the appointments to the Water Works Board of Trustees.

The Water Works determines fees charged to users and also charges the City for usage. The Water Works collects sewage and garbage fees for the City of Creston. Funds collected are remitted to the City monthly. The City received \$1,213,437 for sewer rental and \$568,173 for garbage collections from the Water Works for the year ended June 30, 2010. The City paid the Water Works \$6,417 for utilities.

The City of Creston and the Creston City Water Works are covered under the same insurance policy. Each year the City pays the total policy premium and the Water Works reimburses the City for its share of the cost. During the year ended June 30, 2010, the Water Works reimbursed the City \$77,603.

As of June 30, 2010, the Water Works owes the following to the City of Creston:

Sewer rental	\$ 131,972
Garbage collections	<u>56,663</u>
	<u>\$ 188,635</u>

The City provides health insurance for employees of both the City and the Water Works under its self-funded health insurance plan. For the year ended June 30, 2010, the City was reimbursed \$134,848 from the Water Works for claims and premiums paid on behalf of the Water Works employees.

The City had business transactions between the City and City officials totaling \$6,342 during the year ended June 30, 2010.

Note 7. Risk Management

The City of Creston is exposed to various risks of loss related to torts; theft, damage to and destruction of assets, errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks did not exceed commercial insurance coverage during the year ended June 30, 2010.

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

Note 8. Commitments

Garbage Collection

The City of Creston has renewed its contract for garbage collection for the fiscal year ending June 30, 2010, and the contract is for a period of seven years.

Airport Operations

The City has entered into an agreement with a contractor to operate and maintain the Creston Municipal Airport for the fiscal year ending June 30, 2011, for \$32,500. The contractor is responsible for all maintenance, upkeep and repairs of the airport and has the option of operating as a fixed based operator. The City is responsible for providing for utilities for the runway lighting, taxiing, lighted windsock, rotating light beacon, and radio homing beacon and for all parts and repairs necessary for these items. The agreement is for a period of one year.

Self-Funded Health Insurance

The City provides health insurance to its employees through a self-funded health insurance plan. Under the self-insured plan, the City pays claims from its employee benefits special revenue fund up to maximum limits and carries stop loss insurance for claims in excess of the limits. The City records the cost of these claims when paid; therefore, the cost of claims incurred but unpaid have not been recorded in the financial statements.

Environmental Insurance

During March, 1998, the City approved committing \$1,000,000 of its bonding capacity in lieu of purchasing liability insurance for protection of possible environmental contingencies related to underground storage tanks owned by the City.

Note 9. Jointly Governed Organizations

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

CITY OF CRESTON, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2010

Note 9. Jointly Governed Organizations (continued)

Union County Assessors Conference Board, Union County Emergency Management Commission, Union County Solid Waste Management Commission, Union County Development Association Public Funding Council, ATURA (Adams, Taylor, Union, Ringgold, Adair).

Note 10. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010, is as follows:

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special Revenue:	
	Emergency	\$ 41,614
	Urban renewal tax increment	17,500
	Local option sales tax Road use	222,763
	Enterprise:	
	Sewer	<u>170,259</u>
		<u>\$ 452,136</u>
Debt service	General	\$ 19,155
	Special revenue:	
	Urban renewal tax increment	579,940
	Local option sales tax	89,657
	Enterprise:	
	Sewer	<u>399,647</u>
		<u>\$1,088,399</u>
Special revenue:		
Road use	Special revenue:	
	Local option sales tax	<u>\$ 87,880</u>
Employee benefits	General	\$ 255
	Enterprise:	
	Sewer	24,058
	Special revenue:	
	Local option sales tax	<u>165,648</u>
		<u>\$ 189,961</u>
McKinley Park	General	<u>\$ 2,000</u>

CITY OF CRESTON, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2010

Note 10. Interfund Transfers (continued)

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
Permanent:		
Cemetery perpetual care	General	\$ <u>3,360</u>
Capital projects	Special revenue: McKinley Park	\$ <u>8,537</u>
Total		<u>\$1,832,273</u>

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

Note 11. Operating Lease

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

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

Note 12. Litigation

The City is a party to two pending litigation actions. Both of these actions are in various stages of investigation. It is currently difficult to determine the nature and extent of the claims along with any damages or expenses that may come from these litigation actions.

Note 13. Subsequent Events

In July, 2010, the City approved the issuance of capital loan notes in the amount of \$1,280,000 to finance sanitary sewer improvements.

In October 2010, the City approved an agreement with a developer for the purchase of City owned property for redevelopment and assistance from the City in the form of a loan of approximately \$110,000 with a balloon payment at the end of the loan of 32 years. The agreement also requires the City to provide utility services to the building and some sidewalk improvements.

Management has evaluated subsequent events through October 15, 2010, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CRESTON, IOWA  
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN BALANCES - ACTUAL TO BUDGET (CASH BASIS) -  
 ALL GOVERNMENTAL AND PROPRIETARY FUNDS  
 Year Ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Net
RECEIPTS:			
Property tax	\$ 2,206,761	\$ -	\$ 2,206,761
Tax increment financing collections	830,465	-	830,465
Other city tax	995,380	-	995,380
Licenses and permits	45,691	-	45,691
Use of money and property	138,544	9,899	148,443
Intergovernmental	1,964,979	124,094	2,089,073
Charges for service	731,480	1,258,716	1,990,196
Special assessments	6,564	-	6,564
Miscellaneous	402,807	-	402,807
<b>TOTAL RECEIPTS</b>	<b><u>\$ 7,322,671</u></b>	<b><u>\$ 1,392,709</u></b>	<b><u>\$ 8,715,380</u></b>
DISBURSEMENTS:			
Public safety	\$ 1,291,228	\$ -	\$ 1,291,228
Public works	1,606,899	-	1,606,899
Health and social services	-	-	-
Culture and recreation	579,237	-	579,237
Community and economic development	34,522	-	34,522
General government	2,288,799	-	2,288,799
Debt service	1,088,399	-	1,088,399
Capital projects	118,361	-	118,361
Business type activities	-	1,597,093	1,597,093
<b>TOTAL DISBURSEMENTS</b>	<b><u>\$ 7,007,445</u></b>	<b><u>\$ 1,597,093</u></b>	<b><u>\$ 8,604,538</u></b>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ 315,226	\$ (204,384)	\$ 110,842
OTHER FINANCING SOURCES (USES), NET	<u>593,963</u>	<u>342,616</u>	<u>936,579</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	\$ 909,189	\$ 138,232	\$ 1,047,421
BALANCE, BEGINNING OF YEAR	<u>3,585,755</u>	<u>1,076,334</u>	<u>4,662,089</u>
BALANCE, END OF YEAR	<b><u>\$ 4,494,944</u></b>	<b><u>\$ 1,214,566</u></b>	<b><u>\$ 5,709,510</u></b>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
\$ 2,045,510	\$ 2,045,510	\$ 161,251
767,115	767,115	63,350
954,617	1,054,617	(59,237)
36,850	36,850	8,841
79,347	122,352	26,091
994,824	1,763,207	325,866
2,051,880	3,012,880	(1,022,684)
-	-	6,564
91,700	252,486	150,321
<u>\$ 7,021,843</u>	<u>\$ 9,055,017</u>	<u>\$ (339,637)</u>
\$ 1,289,561	\$ 1,318,561	\$ 27,333
1,729,891	1,904,806	297,907
-	-	-
495,978	582,284	3,047
25,300	35,300	778
1,592,295	2,360,867	72,068
1,039,920	1,039,920	(48,479)
40,000	123,802	5,441
808,898	1,808,898	211,805
<u>\$ 7,021,843</u>	<u>\$ 9,174,438</u>	<u>\$ 569,900</u>
\$ -	\$ (119,421)	\$ 230,263
-	-	936,579
\$ -	\$ (119,421)	<u>\$ 1,166,842</u>
<u>6,376,055</u>	<u>6,376,055</u>	
<u>\$ 6,376,055</u>	<u>\$ 6,256,634</u>	

CITY OF CRESTON, IOWA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
June 30, 2010

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendment increased budgeted disbursements by \$2,152,595. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the debt service function.

## OTHER SUPPLEMENTARY INFORMATION

CITY OF CRESTON, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
As of and for the Year Ended June 30, 2010

Schedule 1

	Special Revenue		
	Police and Fire Retirement	Emergency	McKinley Park
RECEIPTS:			
Property tax	\$ 117,441	\$ 41,614	\$ -
Tax increment financing collections	-	-	-
Other city tax	-	-	-
Licenses and permits	-	-	-
Uses of money and property	-	-	746
Intergovernmental	-	-	-
Charges for services	-	-	-
Special assessments	-	-	-
Miscellaneous	-	-	49,276
<b>TOTAL RECEIPTS</b>	<b>\$ 117,441</b>	<b>\$ 41,614</b>	<b>\$ 50,022</b>
DISBURSEMENTS:			
Operating:			
Public safety	\$ 114,575	\$ -	\$ -
Public works	-	-	-
Health and social services	-	-	-
Culture and recreation	-	-	40,867
Community and economic development	-	-	-
General government	-	-	-
Debt service	-	-	-
Capital projects	-	-	-
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 114,575</b>	<b>\$ -</b>	<b>\$ 40,867</b>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	<b>\$ 2,866</b>	<b>\$ 41,614</b>	<b>\$ 9,155</b>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	\$ -	\$ -	\$ 2,000
Operating transfers out	-	(41,614)	(8,537)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ -</b>	<b>\$ (41,614)</b>	<b>\$ (6,537)</b>

See accompanying independent auditor's report.

<u>Special Revenue</u>			<u>Permanent</u>		
<u>Airport</u>	<u>Library</u>	<u>Capital Projects</u>	<u>Cemetery Perpetual Care</u>	<u>Cemetery Perpetual Decoration</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 159,055
-	-	-	-	-	-
-	-	-	-	-	-
-	4,689	-	-	-	5,435
-	-	73,027	-	-	73,027
-	-	-	-	-	-
-	-	-	-	-	-
-	81,388	-	2,164	-	132,828
<u>\$ -</u>	<u>\$ 86,077</u>	<u>\$ 73,027</u>	<u>\$ 2,164</u>	<u>\$ -</u>	<u>\$ 370,345</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 114,575
-	-	-	-	-	-
-	33,387	-	-	-	74,254
-	-	-	-	-	-
-	-	-	-	-	-
-	-	118,361	-	-	118,361
<u>\$ -</u>	<u>\$ 33,387</u>	<u>\$ 118,361</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 307,190</u>
<u>\$ -</u>	<u>\$ 52,690</u>	<u>\$ (45,334)</u>	<u>\$ 2,164</u>	<u>\$ -</u>	<u>\$ 63,155</u>
\$ -	\$ -	\$ 8,537	\$ 3,360	\$ -	\$ 13,897
-	-	-	-	-	(50,151)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,537</u>	<u>\$ 3,360</u>	<u>\$ -</u>	<u>\$ (36,254)</u>

CITY OF CRESTON, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
As of and for the Year Ended June 30, 2010

Schedule 1

	Special Revenue		
	Police and Fire Retirement	Emergency	McKinley Park
NET CHANGE IN CASH BALANCE	\$ 2,866	\$ -	\$ 2,618
CASH BALANCES, BEGINNING OF YEAR	110,152	-	165,874
CASH BALANCES, END OF YEAR	\$ 113,018	\$ -	\$ 168,492
CASH BASIS FUND BALANCES:			
Reserve:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	-	-	-
Special revenue funds	113,018	-	168,492
Capital projects fund	-	-	-
Permanent fund	-	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 113,018	\$ -	\$ 168,492

See accompanying independent auditor's report.

<u>Special Revenue</u>			<u>Permanent</u>		
<u>Airport</u>	<u>Library Building</u>	<u>Capital Projects</u>	<u>Cemetery Perpetual Care</u>	<u>Cemetery Perpetual Decoration</u>	<u>Total</u>
\$ -	\$ 52,690	\$ (36,797)	\$ 5,524	\$ -	\$ 26,901
<u>400</u>	<u>291,427</u>	<u>109,590</u>	<u>207,546</u>	<u>22,591</u>	<u>907,580</u>
<u>\$ 400</u>	<u>\$ 344,117</u>	<u>\$ 72,793</u>	<u>\$ 213,070</u>	<u>\$ 22,591</u>	<u>\$ 934,481</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
400	344,117	-	-	-	626,027
-	-	72,793	-	-	72,793
-	-	-	213,070	22,591	235,661
<u>\$ 400</u>	<u>\$ 344,117</u>	<u>\$ 72,793</u>	<u>\$ 213,070</u>	<u>\$ 22,591</u>	<u>\$ 934,481</u>

CITY OF CRESTON, IOWA  
 SCHEDULE OF INDEBTEDNESS  
 Year Ended June 30, 2010

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	Schedule 2  <u>Amount Originally Issued</u>
General obligation capital loan notes:			
Refunding notes	August 15, 2005	3.25-4.20%	1,720,000
General corporate purpose	September 14, 2007	4.75%	295,000
General corporate purpose	March 25, 2008	2.40-3.85%	2,530,000
Total			
Other debt:			
State Revolving Funds Loan	Nov. 7, 1995	3.00%	810,000
State Revolving Funds Loan	June 10, 1997	3.00%	2,383,000
State Revolving Funds Loan	March 20, 1998	3.00%	829,000
State Revolving Funds Loan	September 30, 2009	3.00%	945,000
Highway 34/25 improvements	March 11, 2003	0.00%	303,382
Park maintenance building	July 22, 2005	3.65%	93,000
Sewer truck	November 4, 2008	4.45%	329,500
Street trucks	April 27, 2010	4.80%	210,342
Total			

See accompanying independent auditor's report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 1,590,000	\$ -	\$ 135,000	\$ 1,455,000	\$ 60,453	\$ -
200,000	-	100,000	100,000	7,125	-
<u>2,340,000</u>	<u>-</u>	<u>200,000</u>	<u>2,140,000</u>	<u>77,363</u>	<u>-</u>
<u>\$ 4,130,000</u>	<u>\$ -</u>	<u>\$ 435,000</u>	<u>\$ 3,695,000</u>	<u>\$ 144,941</u>	<u>\$ -</u>
\$ 322,000	\$ -	\$ 48,000	\$ 274,000	\$ 9,660	\$ -
1,211,000	-	129,000	1,082,000	36,330	-
457,000	-	43,000	414,000	13,770	-
-	936,579	34,000	902,579	14,662	-
101,128	-	101,128	-	-	-
18,600	-	18,600	-	679	-
282,429	-	47,071	235,358	12,743	-
<u>-</u>	<u>210,342</u>	<u>-</u>	<u>210,342</u>	<u>-</u>	<u>-</u>
<u>\$ 2,392,157</u>	<u>\$ 1,146,921</u>	<u>\$ 420,799</u>	<u>\$ 3,118,279</u>	<u>\$ 87,844</u>	<u>\$ -</u>

CITY OF CRESTON, IOWA  
BOND AND OTHER DEBT MATURITIES  
JUNE 30, 2010

Schedule 3

General Obligation Capital Loan Notes

Year Ending June 30,	Refunding Notes		General Purpose		General Purpose	
	Issued August 15, 2005		Issued September 14, 2007		Issued March 25, 2008	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2011	3.45	\$ 140,000	4.75	\$ 100,000	2.80	\$ 210,000
2012	3.55	145,000	-	-	2.95	215,000
2013	3.65	150,000	-	-	3.05	225,000
2014	3.75	155,000	-	-	3.20	230,000
2015	3.80	160,000	-	-	3.35	235,000
2016	3.90	165,000	-	-	3.50	245,000
2017	4.00	175,000	-	-	3.65	250,000
2018	4.10	180,000	-	-	3.75	260,000
2019	4.20	185,000	-	-	3.85	270,000
Total		<u>\$ 1,455,000</u>		<u>\$ 100,000</u>		<u>\$ 2,140,000</u>

Other Debt

Year Ending June 30,	State Revolving Funds Loan		State Revolving Funds Loan		Sewer Truck	
	Dated June 10, 1997		Dated September 30, 2009			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2011	3.00	\$ 135,000	3.00	\$ 35,000	4.45	\$ 47,071
2012	3.00	141,000	3.00	37,000	4.45	47,071
2013	3.00	147,000	3.00	38,000	4.45	47,072
2014	3.00	154,000	3.00	39,000	4.45	47,072
2015	3.00	161,000	3.00	40,000	4.45	47,072
2016	3.00	168,000	3.00	42,000	-	-
2017	3.00	176,000	3.00	43,000	-	-
2018	-	-	3.00	44,000	-	-
2019	-	-	3.00	46,000	-	-
2020	-	-	3.00	47,000	-	-
2021	-	-	3.00	49,000	-	-
2022	-	-	3.00	50,000	-	-
2023	-	-	3.00	52,000	-	-
2024	-	-	3.00	54,000	-	-
2025	-	-	3.00	55,000	-	-
2026	-	-	3.00	57,000	-	-
2027	-	-	3.00	59,000	-	-
2028	-	-	3.00	61,000	-	-
2029	-	-	3.00	54,579	-	-
		<u>\$ 1,082,000</u>		<u>\$ 902,579</u>		<u>\$ 235,358</u>

See accompanying independent auditor's report.

Total General Obligation Capital Loan Notes	Other Debt			
	State Revolving Funds Loan Dated March 20, 1998		State Revolving Funds Loan Dated November 7, 1995	
	Interest Rates	Amount	Interest Rates	Amount
	\$ 450,000	3.00	\$ 45,000	3.00
360,000	3.00	47,000	3.00	52,000
375,000	3.00	48,000	3.00	55,000
385,000	3.00	51,000	3.00	57,000
395,000	3.00	53,000	3.00	60,000
410,000	3.00	55,000	-	0
425,000	3.00	57,000	-	-
440,000	3.00	58,000	-	-
455,000	-	-	-	-
<u>\$ 3,695,000</u>		<u>\$ 414,000</u>		<u>\$ 274,000</u>

Other Debt

Street Trucks		Total Other Debt
Interest Rates	Amount	
4.80	\$ 38,205	\$ 350,276
4.80	40,046	364,117
4.80	41,975	377,047
4.80	43,998	392,070
4.80	46,118	407,190
-	-	265,000
-	-	276,000
-	-	102,000
-	-	46,000
-	-	47,000
-	-	49,000
-	-	50,000
-	-	52,000
-	-	54,000
-	-	55,000
-	-	57,000
-	-	59,000
-	-	61,000
-	-	54,579
	<u>\$ 210,342</u>	<u>\$ 3,118,279</u>

CITY OF CRESTON, IOWA  
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS  
 BY FUNCTION - ALL GOVERNMENTAL FUNDS  
 For the Last Six Years

Schedule 4

	<u>2010</u>	<u>2009</u>	<u>2008</u>
RECEIPTS:			
Property tax	\$ 2,206,761	\$ 1,834,171	\$ 1,610,447
Tax incremental financing collections	830,465	570,169	377,466
Other city tax	995,380	938,578	930,308
Licenses and permits	45,691	53,262	35,096
Uses of money and property	138,544	220,911	309,648
Intergovernmental	1,964,979	1,877,398	1,604,264
Charges for services	731,480	754,752	728,682
Special assessments	6,564	3,202	1,120
Miscellaneous	<u>402,807</u>	<u>574,130</u>	<u>405,027</u>
TOTAL	<u>\$ 7,322,671</u>	<u>\$ 6,826,573</u>	<u>\$ 6,002,058</u>
DISBURSEMENTS:			
Operating:			
Public safety	\$ 1,291,228	\$ 1,935,678	\$ 1,369,057
Public works	1,606,899	1,710,960	1,550,531
Health and social services	-	-	-
Culture and recreation	579,237	709,738	1,055,408
Community and economic development	34,522	45,807	29,577
General government	2,288,799	1,609,437	1,818,139
Debt service	1,088,399	1,060,991	1,137,048
Capital projects	<u>118,361</u>	<u>12,676</u>	<u>39,328</u>
TOTAL	<u>\$ 7,007,445</u>	<u>\$ 7,085,287</u>	<u>\$ 6,999,088</u>

See accompanying independent auditor's report.

<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 1,751,774	\$ 2,347,714	\$ 2,406,504
257,088	123,798	125,512
958,901	642,641	90,754
84,004	83,496	58,863
272,066	178,858	67,787
1,443,949	1,714,568	1,701,605
636,366	631,690	636,413
1,123	770	768
<u>529,052</u>	<u>273,672</u>	<u>255,315</u>
<u>\$ 5,934,323</u>	<u>\$ 5,997,207</u>	<u>\$ 5,343,521</u>
\$ 1,329,216	\$ 1,382,540	\$ 1,284,193
1,424,508	1,242,654	1,376,244
-	-	-
574,424	475,808	440,350
22,051	36,840	29,966
1,525,619	1,859,588	817,126
748,852	987,032	1,022,485
7,016	94,540	397,048
<u>\$ 5,631,686</u>	<u>\$ 6,079,002</u>	<u>\$ 5,367,412</u>

CITY OF CRESTON, IOWA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2010

<u>Federal grantor/pass-through grant/program name</u>	<u>Federal CFDA Number</u>	<u>Total Federal Expenditures</u>
United States Department of Federal Aviation: Airport Improvements Grants	20.106	\$ <u>32,224</u>
United States Department of Justice: City of Coralville, Iowa: Edward Byrne Memorial Justice Grant	16.803	\$ <u>11,360</u>
United States Department of Homeland Security: Iowa Department of Public Defense: Iowa Homeland Security and Emergency Management Division: Hazard Mitigation Grant	97.039	\$ <u>27,759</u>
United States Department of Housing and Urban Development: Iowa Department of Economic Development Community Development Block Grant	14.228	\$ <u>408,542</u>
United States Department of Transportation: Iowa Department of Transportation: Highway Planning and Construction Grants-ARRA Highway Planning and Construction Grants	20.205 20.205	\$ <u>62,778</u> <u>12,340</u>
Total Iowa Department of Transportation		\$ <u>75,118</u>
Total Federal Expenditures		\$ <u><u>555,003</u></u>

See accompanying independent auditor's report and notes to schedules of  
 expenditures to federal awards.

CITY OF CRESTON, IOWA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2010

Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Creston, Iowa, 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 Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's reports.

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

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

We have audited the financial statements of the government activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Creston, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City of Creston, Iowa's basic financial statements and have issued our report thereon dated October 15, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards generally and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Creston, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Creston, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Creston, Iowa's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies in internal control over financial reporting.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Creston, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as items.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

*Drapen, Smidgrasso, Mickelson + Co., P.C.*

October 15, 2010

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

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

Compliance

We have audited the compliance of City of Creston, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. City of Creston, Iowa's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant applicable to each of its major federal programs is the responsibility of the City of Creston, Iowa's management. Our responsibility is to express an opinion on the City of Creston, Iowa'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 Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Creston, Iowa's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Creston, Iowa's compliance with those requirements.

In our opinion, City of Creston, Iowa, 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, 2009.

## Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2010-III-A to be significant deficiency.

City of Creston, Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit City of Creston, Iowa's responses and, accordingly, we express no opinion on the responses.

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

*Drapen, Smidgrass, Mckelken + Co., P.C.*

October 15, 2010

CITY OF CRESTON, IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2010

PART I: SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements and no material weaknesses were reported.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over the major program was disclosed by the audit of the financial statements and no material weaknesses were reported.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 14.228 – Community Development Block Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Creston, Iowa did not qualify as a low-risk auditee.

CITY OF CRESTON, IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2010

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS

2010-II-A      Segregation of duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of the aspects of accounting internal controls which rely on adequate segregation of duties, for all reasonable purposes, are missing in the City.

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

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

Conclusion: Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

PART III: FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

INSTANCES OF NON-COMPLIANCE

None

SIGNIFICANT DEFICIENCIES:

2010-III-A      A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of the aspects of accounting internal controls which rely on adequate segregation of duties, for all reasonable purposes, are missing in the city. See audit finding 2010-II-A.

CITY OF CRESTON, IOWA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year Ended June 30, 2010

PART IV. OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

2010-IV-1      Certified Budget: Disbursements during the year ended June 30, 2010, exceeded the amounts budgeted in the Debt Service Function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation: The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response: The City will thoroughly review all funds for possible budget amendments on a timely basis to ensure compliance to Chapter 384.18 of the Code of Iowa.

Conclusion: Response acknowledged.

2010-IV-2      Questionable Disbursements: During the audit, we noted no expenditures for parties, banquets or other entertainment for employees or Council members that we believe may constitute an unlawful expenditure of public funds as defined in an Attorney General's opinion dated April 25, 1979.

2010-IV-3      Travel Expense: No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.

2010-IV-4      Business Transactions: Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, title and Business connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Larry Wynn, Council Member, Owner of F & M Body Shop	Repairs	\$ 2,144
John Kawa, Park and Recreation Board Member Owner of Kawa Construction	New restroom doors Steel door and frame	2,268 1,930

CITY OF CRESTON, IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2010

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Member do not appear to represent conflicts of interest since total of each transaction was less than \$1,500 during the fiscal year. The transactions with the Park and Recreation board member do not appear to represent conflicts of interest as competitive quotes were also obtained on those projects.

- 2010-IV-5     Bond Coverage: Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 2010-IV-6     Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.
- 2010-IV-7     Revenue Bonds: The City does not have revenue bonds, only general obligation bonds.
- 2010-IV-8     Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.