

CITY OF CRESCO, IOWA
FINANCIAL STATEMENTS
JUNE 30, 2011

Table of Contents

Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-10
Basic Financial Statements	
Government-Wide Financial Statement	
Statement of Activities and Net Assets - Cash Basis.....	11
Governmental Fund Financial Statements	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - All Fund Types	12
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets.....	13
Proprietary Fund Financial Statement	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances.....	14
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets.....	15
Notes to the Financial Statements.....	16-24
Required Supplementary Information	
Schedule of Budgetary Comparison of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds.....	25
Other Supplementary Information	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds.....	26
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Proprietary Funds.....	27
Schedule of Indebtedness.....	28
Schedule of Note Maturities	29
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds.....	30
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	31-32
Schedule of Findings	33-35

Officials

Name	Title	Term Expires
------	-------	--------------

Elected Officials

Mark Bohle	Mayor	January, 2012
John Loveless	Mayor Pro Tem	January, 2012
Josh Moore	Council Member	January, 2012
Dennis Blake	Council Member	January, 2012
Amy Bouska	Council Member	January, 2014
Steve McCarville	Council Member	January, 2014

Appointed Officials

John Lloyd	Administrator/Clerk	September, 2010
Michelle Girolamo	Administrator/Clerk	Indefinite
Joseph P. Braun	Attorney	Indefinite
Dennis Cauwels	Public Works Director	Retired December, 2010
Rodney Freidhof	Public Works Director	Indefinite, hired January, 2011

HOGAN • HANSEN

A Professional Corporation

Certified Public Accountants and Consultants

Independent Auditor's Report

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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Cresco, Iowa, as of and for the year ended June 30, 2011 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 opinions 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, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Cresco as of June 30, 2011, 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 November 18, 2011 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
Page 2

Management's Discussion and Analysis and budgetary comparison information on Pages 4 through 10 and Page 25 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 required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited the financial statements for the eight years ended June 30, 2010 (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 which were prepared in conformity with an other comprehensive basis of accounting. Other supplemental information included on Pages 26 through 30 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
November 18, 2011

City of Cresco, Iowa
Management's Discussion and Analysis
June 30, 2011

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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased approximately \$1,100,000 from fiscal year 2010 to fiscal year 2011. This increase is primarily due to bond proceeds in the current fiscal year.

Disbursements for governmental activities increased approximately \$500,000 in fiscal year 2011 from fiscal year 2010. This is mainly due to an increase in expenditures for public works capital asset acquisitions.

The City's total cash basis net assets increased \$973,642 from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased \$804,870 and the assets of the business-type activities increased by \$168,772.

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 and CIDC Revolving Loan; (c) the Debt Service Fund and (d) the Capital Projects Funds such as Street Shop Project, Sewer Project and 1st Avenue Street 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 and for the internal service fund. Enterprise funds are used to report business-type activities. The City maintains several enterprise funds to provide separate information for water, sewer, capital improvement and yard waste, of which water and sewer funds are considered to be major funds of the City. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

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 increased from \$3,025,672 a year ago to \$3,830,542. The analysis that follows focuses on the changes in cash balances for governmental activities.

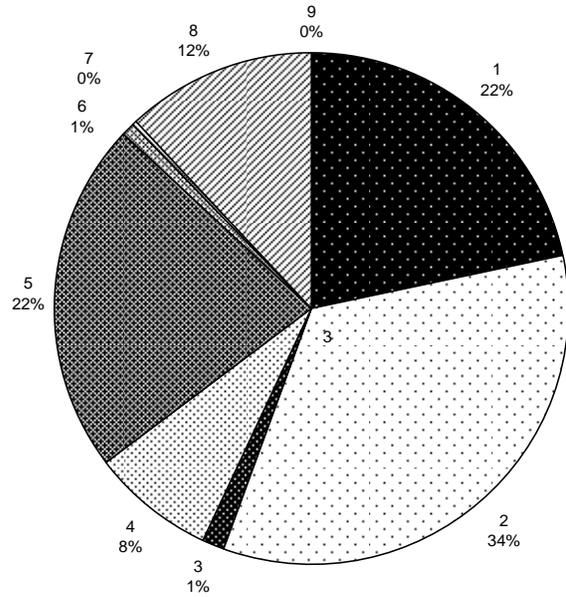
Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Receipts and Transfers		
Program Receipts		
Charges for service	\$ 1,040,003	\$ 990,461
Operating grants, contributions and restricted interest	580,989	481,254
General Receipts		
Property tax	1,644,184	1,595,116
Other city tax	66,742	75,606
Local option sales tax	367,904	331,011
Unrestricted interest on investments	33,991	43,189
Loan proceeds	1,081,900	16,356
Proceeds of capital assets sold	8,500	102,354
Other general receipts	37,636	62,213
Transfers, net	<u>(36,244)</u>	<u>1,905</u>
Total Receipts and Transfers	<u>4,825,605</u>	<u>3,699,465</u>
Disbursements and Transfers		
Public safety	739,707	653,523
Public works	1,392,058	1,003,632
Health and social services	6,858	3,929
Culture and recreation	1,007,958	890,594
Community and economic development	138,720	117,740
General government	297,195	246,290
Debt service	219,875	268,654
Capital projects	<u>218,364</u>	<u>319,213</u>
Total Disbursements and Transfers	<u>4,020,735</u>	<u>3,503,575</u>
Increase (Decrease) in Cash Basis Net Assets	804,870	195,890
Cash basis net assets - beginning of year	<u>3,025,672</u>	<u>2,829,782</u>
Cash Basis Net Assets - End of Year	<u>\$ 3,830,542</u>	<u>\$ 3,025,672</u>

Receipts 2011

1. Charges for service	\$ 1,040,003
2. Property tax	1,644,184
3. Other city tax	66,742
4. Local option sales tax	367,904
5. Loan proceeds	1,081,900
6. Unrestricted interest	33,991
7. Sale of assets	8,500
8. Operating grants	580,989
9. Transfers and other	<u>1,392</u>

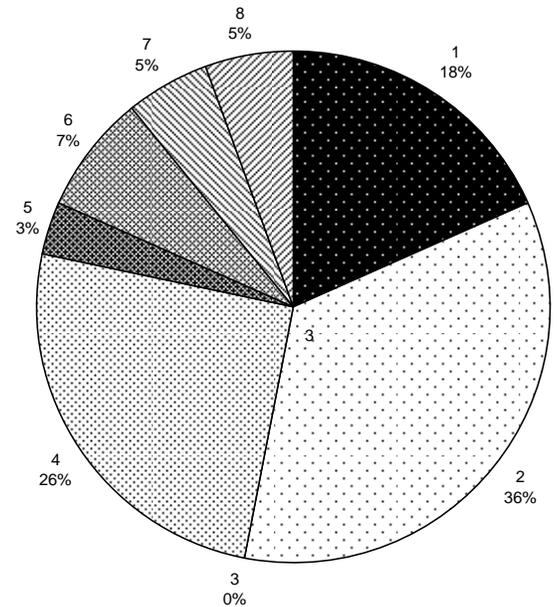
Total **\$ 4,825,605**



Disbursements 2011

1. Public safety	\$ 739,707
2. Public works	1,392,058
3. Health and social services	6,858
4. Culture and recreation	1,007,958
5. Community and economic development	138,720
6. General government	297,195
7. Debt service	219,875
8. Capital projects	<u>218,364</u>

Total **\$ 4,020,735**



The City's total receipts for governmental activities increased by 30%, or \$1,126,140. The significant increase was due to bond proceeds.

The total cost of all programs and services increased by \$517,160, or 15%. The majority of this increase was in the public works function.

Changes in Cash Basis Net Assets of Business-Type Activities

	Year Ended June 30,	
	2011	2010
Receipts and Transfers		
Program Receipts		
Charges for Service		
Water	\$ 457,124	\$ 355,592
Sewer	699,957	582,012
Other proprietary	83,121	82,932
General Receipts		
Sale of assets	1,634	3,078
Unrestricted interest on investments	9,960	15,775
Other general receipts	5,694	4,861
Net transfers	36,244	(1,905)
Total Receipts and Transfers	1,293,734	1,042,345
Disbursements		
Water	531,063	463,447
Sewer	560,834	543,734
Other proprietary	33,065	57,764
Total Disbursements	1,124,962	1,064,945
Increase (Decrease) in Cash Basis Net Assets	168,772	(22,600)
Cash basis net assets - beginning of year	1,248,353	1,270,953
Cash Basis Net Assets - End of Year	\$ 1,417,125	\$ 1,248,353

Total business-type activities receipts for the fiscal year were \$1,293,734 compared to \$1,042,345 last year. The increase was the result of an increase in the rates for charges for service. The cash balance increased by \$168,772, or 14%, from the prior year. Total disbursements for the fiscal year increased by 6%, or \$60,017. This increase in disbursements was primarily due to a sewer line replacement, new water controls and an increase in health insurance expense due to recent retirements.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City of Cresco's governmental funds reported a combined fund balance of \$3,807,021, an increase of \$797,936 from last year's total of \$3,009,085.

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 \$165,599 from the prior year to \$1,615,146. This increase was largely due to a local option sales tax increase in revenue and a transfer in from the capital projects to pay off internal loans. In addition, telecommunications revenue was more than expenses.

The Road Use Tax Fund cash balance increased by \$68,696 to \$489,197 during the fiscal year. This increase is due to a slight increase in revenue while wage expense decreased due to one employee being on military leave. Expenses were significantly less than budgeted and many street expenses were funded out of the local option sales tax and I-Jobs funding that was received.

The Employee Benefits Fund cash balance increased \$45,179 to \$394,609 during the fiscal year. This year the City received \$450,113 in property taxes with additional revenue coming from interest on a certificate of deposit and utility tax replacement. Total revenue was \$471,811. 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 \$37,648 over the fiscal year ended June 30, 2010; however, the actual increase in health insurance premiums was less than budgeted.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The Water Fund cash balance decreased by \$41,786 to \$280,702, due to retirement of a part-time employee and health insurance payments for a retiree. Wage expense increased for full-time employees and the City also paid for new controls for the water department.

The Sewer Fund cash balance increased by \$155,669 to \$817,165 due to an increase in rates charged for services, while expenses such as electricity and repairs were significantly under budget. During the year ended June 30, 2011, \$45,000 was budgeted and put aside to build reserves for future maintenance issues.

BUDGETARY HIGHLIGHTS

Over the course of the year ended June 30, 2011, the City amended its budget three times. The amendments were approved on September 20, 2010, April 18, 2011 and May 16, 2011. The amendments resulted in an increase in budgeted revenue from LOST, insurance proceeds and Fitness Center donations and an increase in rates for water, sewer and recycling fees. The budgeted expenses increase due to unforeseen repairs, interest on new debt and the purchase of a used grader from the County. Budgeted expenses also increased for projects not completed in the prior fiscal year resulting in payments in this fiscal year.

DEBT ADMINISTRATION

Outstanding Debt at Year End

General obligation notes	\$ 2,660,000
Revenue notes	<u>394,900</u>
Totals	<u>\$ 3,054,900</u>

The City continues to carry a general obligation bond rating of A1. 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 \$2,660,000 is below its constitutional debt limit of \$8,828,205.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Two budget amendments to the fiscal year 2012 budget have been approved because several projects were not completed last fiscal year and are expected to be paid in fiscal year 2012. Property tax rates increased due to loan payments and projected increases in health insurance premiums. The City has healthy cash reserves but they are not earning very much interest on the balances. The limited road use tax collected has caused the City to use local option sales tax to supplement the Road Use Tax Fund. The City continues the struggle of keeping tax rates low while continuing to make infrastructure improvements.

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 Michelle Girolamo, City Clerk, at 130 North Park Place, Cresco, Iowa.

Basic Financial Statements

Statement of Activities and Net Assets - Cash Basis

Year Ended June 30, 2011

Functions/Programs	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			Component Units
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total	
Governmental Activities							
Public safety	\$ 739,707	\$ 27,944	\$ 16,741	\$ (695,022)	\$ —	\$ (695,022)	\$ —
Public works	1,392,058	546,930	375,150	(469,978)	—	(469,978)	—
Health and social services.....	6,858	—	—	(6,858)	—	(6,858)	—
Culture and recreation.....	1,007,958	436,816	94,189	(476,953)	—	(476,953)	—
Community and economic development	138,720	100	94,909	(43,711)	—	(43,711)	—
General government.....	297,195	28,213	—	(268,982)	—	(268,982)	—
Debt service.....	219,875	—	—	(219,875)	—	(219,875)	—
Capital projects.....	218,364	—	—	(218,364)	—	(218,364)	—
Total Governmental Activities	4,020,735	1,040,003	580,989	(2,399,743)	—	(2,399,743)	—
Business-Type Activities							
Water	531,063	457,124	—	—	(73,939)	(73,939)	—
Sewer	560,834	699,957	—	—	139,123	139,123	—
Other proprietary	33,065	83,121	—	—	50,056	50,056	—
Total Business-Type Activities.....	1,124,962	1,240,202	—	—	115,240	115,240	—
Total	\$ 5,145,697	\$ 2,280,205	\$ 580,989	(2,399,743)	115,240	(2,284,503)	—
Component Units							
Cresco Public Library Foundation	\$ 13,642	—	\$ 13,330	—	—	—	(312)
Cresco Fire Fighters, Inc.	20,616	—	28,291	—	—	—	7,675
Total Component Units	\$ 34,258	—	\$ 41,621	—	—	—	7,363
General Receipts							
Property Tax Levied for							
General purposes.....				970,530	—	970,530	—
Tax increment financing				19,645	—	19,645	—
Debt service				203,896	—	203,896	—
Employee benefits.....				450,113	—	450,113	—
Other city tax				66,742	—	66,742	—
Local option sales tax.....				367,904	—	367,904	—
Unrestricted interest on investments				33,991	9,960	43,951	4,710
Miscellaneous.....				37,636	5,694	43,330	—
General obligation bond proceeds.....				1,050,000	—	1,050,000	—
Sewer revenue note proceeds.....				31,900	—	31,900	—
Sale of assets				8,500	1,634	10,134	—
Transfers				(36,244)	36,244	—	—
Total General Receipts and Transfers				3,204,613	53,532	3,258,145	4,710
Change in Cash Basis Net Assets				804,870	168,772	973,642	12,073
Cash Basis Net Assets - Beginning of Year				3,025,672	1,248,353	4,274,025	272,608
Cash Basis Net Assets - End of Year				\$ 3,830,542	\$ 1,417,125	\$ 5,247,667	\$ 284,681
Cash Basis Net Assets							
Restricted							
Expendable							
Urban renewal purposes.....				\$ 63,590	\$ —	\$ 63,590	\$ —
CIDC revolving loan.....				107,640	—	107,640	—
Debt service.....				224,758	224,589	449,347	—
Streets				489,197	—	489,197	—
Capital projects.....				558,376	—	558,376	—
Other purposes.....				748,314	—	748,314	—
Unrestricted				1,638,667	1,192,536	2,831,203	284,681
Total Cash Basis Net Assets				\$ 3,830,542	\$ 1,417,125	\$ 5,247,667	\$ 284,681

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, 2011

	General	Special Revenue		Other Nonmajor Governmental Funds	Total
		Road Use Tax	Employee Benefits		
Receipts					
Property tax	\$ 969,584	\$ —	\$ 450,113	\$ 203,896	\$ 1,623,593
T.I.F. collections	—	—	—	19,645	19,645
Other city tax	421,206	—	9,302	4,134	434,642
Licenses and permits	12,367	—	—	—	12,367
Use of money and property	64,594	144	3,110	14,674	82,522
Intergovernmental	38,733	375,151	—	56,052	469,936
Charges for service	930,141	—	—	—	930,141
Special assessments	947	—	—	—	947
Miscellaneous	74,216	—	9,286	114,154	197,656
Total Receipts	<u>2,511,788</u>	<u>375,295</u>	<u>471,811</u>	<u>412,555</u>	<u>3,771,449</u>
Disbursements					
Operating					
Public safety	578,826	—	163,207	—	742,033
Public works	926,797	306,599	110,146	—	1,343,542
Health and social services	6,858	—	—	—	6,858
Culture and recreation	796,728	—	118,740	94,917	1,010,385
Community and economic development ..	43,955	—	—	94,765	138,720
General government	263,261	—	34,539	—	297,800
Debt service	—	—	—	219,875	219,875
Capital projects	—	—	—	218,364	218,364
Total Disbursements	<u>2,616,425</u>	<u>306,599</u>	<u>426,632</u>	<u>627,921</u>	<u>3,977,577</u>
Receipts Over (Under) Disbursements ..	<u>(104,637)</u>	<u>68,696</u>	<u>45,179</u>	<u>(215,366)</u>	<u>(206,128)</u>
Other Financing Sources (Uses)					
Interfund loan activity	45,336	—	—	(45,336)	—
General obligation bond proceeds	344,103	—	—	705,897	1,050,000
Sewer revenue capital loan proceeds	—	—	—	31,900	31,900
Sale of capital assets	8,500	—	—	—	8,500
Capital lease payments	(50,092)	—	—	—	(50,092)
Transfers in	15,586	—	—	56,953	72,539
Transfers out	(93,197)	—	—	(15,586)	(108,783)
Total Other Financing Sources (Uses)	<u>270,236</u>	<u>—</u>	<u>—</u>	<u>733,828</u>	<u>1,004,064</u>
Increase (Decrease) in Cash Balances ..	165,599	68,696	45,179	518,462	797,936
Cash Balances - Beginning of Year, as Restated - Note 11	1,449,547	420,501	349,430	789,607	3,009,085
Cash Balances - End of Year	<u>\$ 1,615,146</u>	<u>\$ 489,197</u>	<u>\$ 394,609</u>	<u>\$ 1,308,069</u>	<u>\$ 3,807,021</u>
Cash Basis Fund Balances					
Restricted for					
Urban renewal purposes	\$ —	\$ —	\$ —	\$ 63,590	\$ 63,590
CIDC revolving loan	—	—	—	107,640	107,640
Debt service	—	—	—	224,758	224,758
Streets	—	489,197	—	—	489,197
Capital projects	—	—	—	558,376	558,376
Other purposes	—	—	394,609	353,705	748,314
Committed to telecommunications	125,169	—	—	—	125,169
Assigned for					
Equipment replacement	34,618	—	—	—	34,618
Other purposes	190,528	—	—	—	190,528
Unassigned	1,264,831	—	—	—	1,264,831
Total Cash Basis Fund Balances	<u>\$ 1,615,146</u>	<u>\$ 489,197</u>	<u>\$ 394,609</u>	<u>\$ 1,308,069</u>	<u>\$ 3,807,021</u>

See accompanying notes to the financial statements.

Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets - Governmental Funds

At June 30, 2011

Total Fund Balances for Governmental Funds (Page 12).....	\$ 3,807,021
--	---------------------

***Amounts reported for governmental activities in the Statement of
Activities and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the assets of the Internal Service Fund are included in governmental activities in the Statement of Activities and Net Assets.....

23,521

Cash Basis Net Assets of Governmental Activities (Page 11).....	<u>\$ 3,830,542</u>
--	----------------------------

Net Change in Cash Balances (Page 12).....	\$ 797,936
---	-------------------

***Amounts reported for governmental activities in the Statement of
Activities and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in net assets of the Internal Service Fund is reported with governmental activities.....

6,934

Change in Cash Basis Net Assets of Governmental Activities (Page 11).....	<u>\$ 804,870</u>
--	--------------------------

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

Year Ended June 30, 2011

	Enterprise Funds			Total	Internal Service Fund
	Water	Sewer	Nonmajor Proprietary Funds		Employee Health
Operating Receipts					
Charges for service	\$ 412,738	\$ 684,186	\$ 83,121	\$ 1,180,045	\$ —
Miscellaneous	49,436	18,049	—	67,485	30,692
Total Operating Receipts	<u>462,174</u>	<u>702,235</u>	<u>83,121</u>	<u>1,247,530</u>	<u>30,692</u>
Operating Disbursements					
Business-type activities.....	532,443	516,170	28,633	1,077,246	—
General government	—	—	—	—	21,100
Total Operating Disbursements	<u>532,443</u>	<u>516,170</u>	<u>28,633</u>	<u>1,077,246</u>	<u>21,100</u>
Operating Receipts Over (Under)					
Operating Disbursements	<u>(70,269)</u>	<u>186,065</u>	<u>54,488</u>	<u>170,284</u>	<u>9,592</u>
Nonoperating Receipts (Disbursements)					
Interest on investments.....	2,239	5,656	2,065	9,960	218
Debt service	—	(46,052)	—	(46,052)	—
Net Nonoperating Receipts (Disbursements)	<u>2,239</u>	<u>(40,396)</u>	<u>2,065</u>	<u>(36,092)</u>	<u>218</u>
Receipts Over (Under)					
Disbursements.....	<u>(68,030)</u>	<u>145,669</u>	<u>56,553</u>	<u>134,192</u>	<u>9,810</u>
Other Financing Sources (Uses)					
Capital lease payments.....	—	—	(4,540)	(4,540)	—
Operating transfers in	26,244	10,000	—	36,244	—
Total Other Financing Sources (Uses)	<u>26,244</u>	<u>10,000</u>	<u>(4,540)</u>	<u>31,704</u>	<u>—</u>
Increase (Decrease) in Cash					
Balances.....	<u>(41,786)</u>	<u>155,669</u>	<u>52,013</u>	<u>165,896</u>	<u>9,810</u>
Cash Balances - Beginning of Year	322,488	661,496	258,188	1,242,172	22,768
Cash Balances - End of Year	<u>\$ 280,702</u>	<u>\$ 817,165</u>	<u>\$ 310,201</u>	<u>\$ 1,408,068</u>	<u>\$ 32,578</u>
Cash Basis Fund Balances					
Restricted for debt service	\$ —	\$ 224,589	\$ —	\$ 224,589	\$ —
Unrestricted.....	280,702	592,576	310,201	1,183,479	32,578
Total Cash Basis Fund Balances	<u>\$ 280,702</u>	<u>\$ 817,165</u>	<u>\$ 310,201</u>	<u>\$ 1,408,068</u>	<u>\$ 32,578</u>

See accompanying notes to financial statements.

Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets - Proprietary Funds

Year Ended June 30, 2011

Total Enterprise Funds Cash Balances (Page 14).....	\$ 1,408,068
--	---------------------

Amounts reported for business-type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the assets of the Internal Service Fund are included in the business-type activities in the Statement of Activities and Net Assets

9,057

Cash Basis Net Assets of Business-Type Activities (Page 11).....	<u>\$ 1,417,125</u>
---	----------------------------

Net Change in Cash Balances (Page 14).....	\$ 165,896
---	-------------------

Amounts reported for business-type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of *partial* self funding of the City's health insurance benefit plan to individual funds. A portion of the change in net assets of the Internal Service Fund is reported with business-type activities

2,876

Change in Cash Basis Net Assets of Business-Type Activities (Page 11)	<u>\$ 168,772</u>
--	--------------------------

Notes to the Financial Statements

(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 units, the Cresco Public Library Foundation (Foundation) and Cresco Fire Fighters, Inc. (Organization). Neither the Foundation nor the Organization issue separately audited financial statements.

Discrete Component Units

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.

Cresco Fire Fighters, Inc. (an Iowa nonprofit corporation) is a component unit that is legally separate from the City. The Organization is governed by a Board of Directors. Economic resources received by the Organization are used for the direct benefit of the City's constituents. The Organization has a year end of December 31. Accordingly, the Organization's financial information included in the statement of activities and net assets is as of and for the year ended December 31, 2010.

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, Planning and Zoning Board, Regional Health Services Foundation Board, Intermediary Relending Program Board, Prairie Springs Recreation Trails Board, Upper Explorerland Regional Planning Commission and Howard County Agricultural Society Board.

(1) Summary of Significant Accounting Policies

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.

The statement of activities and net assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Expendable 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. Total expendable restricted net assets at June 30, 2011 were \$2,191,875.

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, and all remaining enterprise funds are aggregated and reported as other nonmajor proprietary funds.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. All general tax receipts from general and emergency levies 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 the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The City reports the following major proprietary funds:

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

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

The City also reports the following additional proprietary fund:

The *Internal Service Fund* is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost-reimbursement basis.

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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, they are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

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.

Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Committed - Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Disbursements for the year ended June 30, 2011 did not exceed the amounts budgeted.

Subsequent Events

Management has evaluated subsequent events through November 18, 2011, the date which the financial statements were available to be issued.

(2) Deposits and Investments

The City's deposits at June 30, 2011 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 district.

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 other than certificates of deposit at June 30, 2011.

Component Units

The Cresco Public Library Foundation deposits at June 30, 2011 are shown below.

Certificates of deposit.....	\$ 203,985
Checking/savings	<u>25,672</u>
	<u>\$ 229,657</u>

Cresco Fire Fighters, Inc. deposits at December 31, 2010 are shown below:

Certificates of deposit.....	\$ 9,927
Checking/savings	<u>45,097</u>
	<u>\$ 55,024</u>

Notes to the Financial Statements

(3) Notes Payable

Annual debt service requirements to maturity for general obligation notes, revenue notes and capital lease are as follows.

Ending June 30,	General Obligation Notes		Sewer Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012.....	\$ 257,000	\$ 85,813	\$ 48,000	\$ 14,207	\$ 305,000	\$ 100,020
2013.....	258,000	78,653	44,900	10,407	302,900	89,060
2014.....	268,000	72,135	32,000	9,060	300,000	81,195
2015.....	274,000	65,055	34,000	8,100	308,000	73,155
2016.....	290,000	54,968	35,000	7,080	325,000	62,048
2017-2021	798,000	186,118	201,000	18,630	999,000	204,748
2022-2026	515,000	66,575	—	—	515,000	66,575
	<u>\$ 2,660,000</u>	<u>\$ 609,317</u>	<u>\$ 394,900</u>	<u>\$ 67,484</u>	<u>\$ 3,054,900</u>	<u>\$ 676,801</u>

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$600,000 and \$500,000 (see Sewer Revenue Note, Series 2011 below) of sewer revenue notes issued in August, 2001 and June, 2011, respectively. Proceeds from the notes provided financing for improvements to the sewer system. The notes are payable solely from sewer customer net receipts and are payable through 2021 and 2013, respectively. Annual principal and interest payments on the notes are expected to require approximately 10% of net receipts. At June 30, 2011, the total principal and interest remaining to be paid on the notes is \$462,384. For the current year, principal and interest paid and total customer net receipts were \$72,952 and \$168,016, respectively.

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

1. The notes are to be redeemed from future earnings of the enterprise activity and the noteholders hold a lien on the future earnings of the fund.
2. Sufficient cash transfers shall be made to the municipal sanitary sewer utility revenue note and interest sinking account within the Sewer Fund for the purpose of making the note principal and interest payments when due.
3. Additional cash transfers shall be made to the municipal sanitary sewer utility revenue debt service reserve account within the Sewer Fund until a specific minimum balance has been reached to provide a reserve to meet future note principal and interest payments.

The City was in compliance with these provisions at June 30, 2011.

During the year ended June 30, 2011, the City was notified the interest rate on its \$600,000 Sewer Revenue Capital Loan Notes, Series 2001, and \$400,000 General Obligation Capital Loan Notes, Series 2001B, loans financed through the Iowa Finance Authority would be decreased from 4.3% to 3%, saving the City approximately \$25,000 and \$10,000, respectively, in interest charges over the life of the loans.

Notes to the Financial Statements

(3) Notes Payable

Sewer Revenue Notes

In June, 2011, the City issued \$500,000 Sewer Revenue Capital Loan Notes, Series 2011, at 3% interest through the Iowa Finance Authority for the purpose of constructing a municipal sewer biosolid waste system. Proceeds of the note are available to be drawn as needed for construction costs. As of June 30, 2011, \$31,900 had been drawn down on the note.

The City was also awarded a \$275,000 grant by the Iowa Finance Authority for the I-Jobs Water Quality Financial Assistance Program to help finance this project. Proceeds of the grant are available to reimburse the City for costs directly incurred for the design, development and construction of the waste system. As of June 30, 2011, the City had requested no amount of the grant.

Capital Lease

In August, 2008, the City entered into a capital lease agreement with CNH Capital for a wheel loader. The City received the wheel loader in August, 2008 and is making annual payments of \$18,160 to CNH Capital at 5.25% interest, which began in August, 2009. The City paid the remaining balance of \$49,225 on this lease during the year ended June 30, 2011.

(4) Interfund Loan Agreements

The City approved interfund loans at a 3% annual interest rate. A summary of changes in interfund loans for the year ended June 30, 2011 is as follows:

Lending Fund	Borrowing Fund	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Interest Paid
Local Option Sales Tax	1st Avenue Street Project	<u>\$ 42,435</u>	<u>\$ 254,101</u>	<u>\$ 296,536</u>	<u>\$ —</u>	<u>\$ 4,168</u>

(5) 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 4.5% of their annual covered salary and the City is required to contribute 6.95% 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 contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$109,321, \$100,742 and \$90,810, respectively, equal to the required contributions for each year.

Notes to the Financial Statements

(6) Other Postemployment Benefits (OPEB)

Plan Description

The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 28 active members and 3 retired members in the plan. Participants must be age 55 or older at retirement. The medical/prescription drug benefits are provided through a partially self-funded plan through Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy

The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums are \$408 for single coverage and \$1,047 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed a total of \$265,415 and plan members eligible for benefits contributed a total of \$25,627 to the plan.

(7) 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. Additionally, an employee may apply unused sick leave to pay health insurance premiums upon retirement.

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, 2011, primarily relating to the General Fund was as follows:

Type of Benefit	Amount
Compensatory time off	\$ 30,773
Vacation.....	111,385
Sick leave	<u>529,677</u>
Total	<u>\$ 671,835</u>

This liability has been computed based on rates of pay as of June 30, 2011 and includes a 42.78% fringe benefits factor.

Notes to the Financial Statements

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue Expendable Trust	\$ 8,021
	Capital Projects 1st Avenue Project	<u>7,565</u>
		<u>15,586</u>
Capital Projects Street Shop	General	<u>163</u>
Special Revenue Expendable Trust	General	<u>20,000</u>
Debt Service Enterprise	General	<u>36,790</u>
Water	General	<u>26,244</u>
Enterprise Sewer	General	<u>10,000</u>
Total		<u>\$ 108,783</u>

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

(9) 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.

(10) Commitments

At June 30, 2011, the City had entered into various contracts totaling approximately \$570,000 for street improvements and waste system improvements.

Notes to the Financial Statements

(11) Accounting Change/Restatement

Governmental Accounting Standards Board Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications was as follows:

	General	Special Revenue			Capital Projects	
		Local Option Sales Tax	Cresco Telecom- munication	Expand- able Trust	Bike Trail 2007	City Hall Remodeling
Balances - Beginning of Year, as previously reported	\$ 731,201	\$ 403,115	\$ 113,274	\$ 554,910	\$ 3,933	\$ 164
Change in fund type classifi- cation per implementation of GASB Statement Number 54	718,346	(403,115)	(113,274)	(197,860)	(3,933)	(164)
Balances - Beginning of Year, as Restated	<u>\$ 1,449,547</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 357,050</u>	<u>\$ —</u>	<u>\$ —</u>

(12) Related Party Transactions

The City had business transactions between the City and City officials totaling \$8,678 during the year ended June 30, 2011.

(13) Subsequent Events

Subsequent to June 30, 2011, the City approved several bids totaling approximately \$237,000 for various projects.

Required Supplementary Information

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, 2011

	Governmental Funds - Actual	Proprietary Funds - Actual	Less Funds Not Required to be Budgeted	Net Actual	Budgeted Amounts		Final to Net Actual Variance
					Original	Final	
Receipts							
Property tax	\$ 1,623,593	\$ —	\$ —	\$ 1,623,593	\$ 1,623,435	\$ 1,623,435	\$ 158
T.I.F. collections	19,645	—	—	19,645	18,000	18,000	1,645
Other city tax	434,642	—	—	434,642	424,357	444,357	(9,715)
Licenses and permits.....	12,367	—	—	12,367	13,065	13,065	(698)
Use of money and property	82,522	10,178	218	92,482	96,579	96,579	(4,097)
Intergovernmental.....	469,936	—	—	469,936	552,950	552,950	(83,014)
Charges for service	930,141	1,180,045	—	2,110,186	1,968,900	2,091,900	18,286
Special assessments.....	947	—	—	947	—	—	947
Miscellaneous.....	197,656	98,177	30,692	265,141	132,091	226,491	38,650
Total Receipts.....	3,771,449	1,288,400	30,910	5,028,939	4,829,377	5,066,777	(37,838)
Disbursements							
Public safety	742,033	—	—	742,033	787,145	813,545	71,512
Public works	1,343,542	—	—	1,343,542	1,434,575	1,519,875	176,333
Health and social services.....	6,858	—	—	6,858	4,000	7,000	142
Culture and recreation.....	1,010,385	—	—	1,010,385	1,005,770	1,099,770	89,385
Community and economic development	138,720	—	—	138,720	233,350	253,350	114,630
General government.....	297,800	21,100	21,100	297,800	313,810	386,910	89,110
Debt service.....	219,875	—	—	219,875	207,900	219,900	25
Capital projects.....	218,364	—	—	218,364	1,150,000	1,284,000	1,065,636
Business-type activities	—	1,123,298	—	1,123,298	1,335,990	1,426,990	303,692
Total Disbursements.....	3,977,577	1,144,398	21,100	5,100,875	6,472,540	7,011,340	1,910,465
Excess (Deficiency) of Receipts Over (Under) Disbursements							
	(206,128)	144,002	9,810	(71,936)	(1,643,163)	(1,944,563)	1,872,627
Other Financing Sources, Net.....							
	1,004,064	31,704	—	1,035,768	1,700,000	1,718,800	(683,032)
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses.....							
	797,936	175,706	9,810	963,832	56,837	(225,763)	1,189,595
Balances - Beginning of Year	3,009,085	1,264,940	22,768	4,251,257	3,650,607	3,650,607	600,650
Balances - End of Year.....	\$ 3,807,021	\$ 1,440,646	\$ 32,578	\$ 5,215,089	\$ 3,707,444	\$ 3,424,844	\$ 1,790,245

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 the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business-type activities. 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, three budget amendments increased budgeted disbursements by \$538,800. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements did not exceed the amounts budgeted.

Other Supplementary Information 

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

Year Ended June 30, 2011

	Special Revenue			Capital Projects			Debt Service	Total
	Urban Renewal T.I.F. Area	CIDC Revolving Loan	Expendable Trust	Street Shop Project	Sewer Project	1st Avenue Street Project		
Receipts								
Property tax	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 203,896	\$ 203,896
T.I.F. collections	19,645	—	—	—	—	—	—	19,645
Other city tax	—	—	—	—	—	—	4,134	4,134
Use of money and property	842	4,830	3,556	563	983	985	2,915	14,674
Intergovernmental.....	—	—	56,052	—	—	—	—	56,052
Miscellaneous.....	—	34,817	78,997	—	—	340	—	114,154
Total Receipts.....	20,487	39,647	138,605	563	983	1,325	210,945	412,555
Disbursements								
Operating								
Culture and recreation.....	—	—	94,917	—	—	—	—	94,917
Community and economic development.....	35,753	—	59,012	—	—	—	—	94,765
Debt service.....	—	—	—	—	—	—	219,875	219,875
Capital projects.....	—	—	—	5,420	104,965	107,979	—	218,364
Total Disbursements.....	35,753	—	153,929	5,420	104,965	107,979	219,875	627,921
Receipts Over (Under) Disbursements.....	(15,266)	39,647	(15,324)	(4,857)	(103,982)	(106,654)	(8,930)	(215,366)
Other Financing Sources (Uses)								
Interfund loan activity, net.....	—	—	—	—	—	(45,336)	—	(45,336)
General obligation bond proceeds.....	—	—	—	—	316,147	389,750	—	705,897
Sewer revenue capital loan proceeds	—	—	—	—	31,900	—	—	31,900
Operating transfers in.....	—	—	20,000	163	—	—	36,790	56,953
Operating transfers out.....	—	—	(8,021)	—	—	(7,565)	—	(15,586)
Total Other Financing Sources (Uses).....	—	—	11,979	163	348,047	336,849	36,790	733,828
Increase (Decrease) in Cash Balances.....	(15,266)	39,647	(3,345)	(4,694)	244,065	230,195	27,860	518,462
Cash Balances - Beginning of Year, as restated - Note 11	78,856	67,993	357,050	81,085	—	7,725	196,898	789,607
Cash Balances - End of Year.....	\$ 63,590	\$ 107,640	\$ 353,705	\$ 76,391	\$ 244,065	\$ 237,920	\$ 224,758	\$ 1,308,069
Cash Basis Fund Balances								
Restricted for								
Urban renewal purposes.....	\$ 63,590	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 63,590
CIDC revolving loan	—	107,640	—	—	—	—	—	107,640
Debt service	—	—	—	—	—	—	224,758	224,758
Capital projects	—	—	—	76,391	244,065	237,920	—	558,376
Other purposes	—	—	353,705	—	—	—	—	353,705
Total Cash Basis Fund Balances.....	\$ 63,590	\$ 107,640	\$ 353,705	\$ 76,391	\$ 244,065	\$ 237,920	\$ 224,758	\$ 1,308,069

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

Year Ended June 30, 2011

	Municipal Sanitary Sewer Utility and Water Utility Capital Improvements	Yard Waste and Recycling	Total
Operating Receipts			
Charges for service	\$ 45,188	\$ 37,933	\$ 83,121
Operating Disbursements			
Business-type activities	<u>7,424</u>	<u>21,209</u>	<u>28,633</u>
Operating Receipts Over Disbursements	37,764	16,724	54,488
Nonoperating Receipts			
Interest on investments	<u>1,625</u>	<u>440</u>	<u>2,065</u>
Receipts Over Disbursements	39,389	17,164	56,553
Other Financing Uses			
Capital lease payments	<u>—</u>	<u>(4,540)</u>	<u>(4,540)</u>
Increase in Cash Balances	39,389	12,624	52,013
Cash Balance - Beginning of Year	<u>189,836</u>	<u>68,352</u>	<u>258,188</u>
Cash Balance - End of Year	<u>\$ 229,225</u>	<u>\$ 80,976</u>	<u>\$ 310,201</u>
Cash Basis Fund Balances			
Reserved for debt service.....	\$ —	\$ —	\$ —
Unreserved.....	<u>229,225</u>	<u>80,976</u>	<u>310,201</u>
Total Cash Basis Fund Balances	<u>\$ 229,225</u>	<u>\$ 80,976</u>	<u>\$ 310,201</u>

Schedule of Indebtedness

Year Ended June 30, 2011

Obligation	Amount Originally Issued	Date of Issue	Interest Rates	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest and Fees Paid
General Obligation Notes								
Capital Loan Notes								
Series 2001B	\$ 253,000	8-1-01	3.00%	\$ 162,000	\$ —	\$ 12,000	\$ 150,000	\$ 7,047
Series 2007	1,885,000	1-8-07	3.70 - 4.40	1,585,000	—	125,000	1,460,000	63,410
Series 2010	1,050,000	11-15-10	1.00 - 3.75	—	1,050,000	—	1,050,000	12,418
Total General Obligation Notes				<u>\$ 1,747,000</u>	<u>\$ 1,050,000</u>	<u>\$ 137,000</u>	<u>\$ 2,660,000</u>	<u>\$ 82,875</u>
Sewer Revenue Capital Loan Notes								
Series 2001	\$ 600,000	8-1-01	3.00%	\$ 392,000	\$ —	\$ 29,000	\$ 363,000	\$ 17,052
Series 2011	500,000*	6-8-11	3.00	—	31,900	—	31,900	—
Total Sewer Revenue Capital Loan Notes				<u>\$ 392,000</u>	<u>\$ 31,900</u>	<u>\$ 29,000</u>	<u>\$ 394,900</u>	<u>\$ 17,052</u>
Anticipation Project Note								
Sewer Revenue Capital Loan Note	\$ 26,900	3-25-08	0.00%	<u>\$ 26,900</u>	<u>\$ —</u>	<u>\$ 26,900</u>	<u>\$ —</u>	<u>\$ —</u>
Capital Lease - Wheel Loader	\$ 64,024	8-22-08	5.25%	<u>\$ 49,225</u>	<u>\$ —</u>	<u>\$ 49,225</u>	<u>\$ —</u>	<u>\$ 3,361</u>
Interfund Loan Agreement (1st Avenue Street Project)	\$ 42,435	8-3-09	3.00%	<u>\$ 42,435</u>	<u>\$ 254,101</u>	<u>\$ 296,536</u>	<u>\$ —</u>	<u>\$ 4,168</u>

*Maximum available. Proceeds will be drawn down as needed for project.

Schedule of Note Maturities

At June 30, 2011

Year Ending June 30,	General Obligation Notes						Total
	Capital Loan Notes						
	Series 2001B		Series 2007		Series 2010		
	Issued August 1, 2001		Issued January 8, 2007		Issued Nov. 15, 2010		
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2012	4.30%	\$ 12,000	3.70%	\$ 125,000	1.00%	\$ 120,000	\$ 257,000
2013	4.30	13,000	3.75	125,000	1.20	120,000	258,000
2014	4.30	13,000	3.80	130,000	1.40	125,000	268,000
2015	4.30	14,000	3.85	135,000	1.60	125,000	274,000
2016	4.30	15,000	3.90	145,000	1.90	130,000	290,000
2017	4.30	15,000	3.95	145,000	2.50	60,000	220,000
2018	4.30	16,000	4.00	60,000	2.50	60,000	136,000
2019	4.30	17,000	4.00	65,000	2.50	60,000	142,000
2020	4.30	17,000	4.00	65,000	3.10	65,000	147,000
2021	4.30	18,000	4.20	70,000	3.10	65,000	153,000
2022		—	4.20	75,000	3.75	20,000	95,000
2023		—	4.30	75,000	3.75	25,000	100,000
2024		—	4.30	80,000	3.75	25,000	105,000
2025		—	4.40	80,000	3.75	25,000	105,000
2026		—	4.40	85,000	3.75	25,000	110,000
Total		\$ 150,000		\$ 1,460,000		\$ 1,050,000	\$ 2,660,000

Year Ending June 30,	Sewer Revenue				Total
	Capital Loan Notes				
	Issued August 1, 2001		Issued June 8, 2011		
Interest Rates	Amount	Interest Rates	Amount		
2012	4.30%	\$ 30,000	3.00%	\$ 18,000	\$ 48,000
2013	4.30	31,000	3.00	13,900	44,900
2014	4.30	32,000		—	32,000
2015	4.30	34,000		—	34,000
2016	4.30	35,000		—	35,000
2017	4.30	37,000		—	37,000
2018	4.30	38,000		—	38,000
2019	4.30	40,000		—	40,000
2020	4.30	42,000		—	42,000
2021	4.30	44,000		—	44,000
Total		\$ 363,000		\$ 31,900	\$ 394,900

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

Years Ended June 30, 2003 Through 2011

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Receipts									
Property tax	\$ 1,623,593	\$ 1,574,522	\$ 1,500,615	\$ 1,496,480	\$ 1,300,355	\$ 1,218,728	\$ 1,254,449	\$ 1,309,772	\$ 1,294,007
T.I.F. collections	19,645	19,427	1,276	129,468	297,248	476,662	352,806	214,898	144,837
Other city tax	434,642	406,618	425,758	373,542	363,312	326,821	280,733	277,349	266,893
Licenses and permits.....	12,367	12,593	12,475	13,536	13,740	14,739	14,931	13,927	12,086
Use of money and property	82,522	87,950	91,424	136,944	107,094	82,320	59,135	58,211	56,024
Intergovernmental.....	469,936	428,138	681,859	1,351,428	784,852	400,676	432,214	466,198	539,194
Charges for service	930,141	891,148	884,095	871,211	846,977	830,777	830,207	814,309	812,344
Special assessments.....	947	1,168	1,442	1,435	2,281	13,269	18,818	34,925	4,563
Miscellaneous.....	197,656	157,287	216,808	136,971	149,997	291,877	125,697	135,551	97,131
Total Receipts	\$ 3,771,449	\$ 3,578,851	\$ 3,815,752	\$ 4,511,015	\$ 3,865,856	\$ 3,655,869	\$ 3,368,990	\$ 3,325,140	\$ 3,227,079
Disbursements									
Operating									
Public safety.....	\$ 742,033	\$ 658,589	\$ 670,862	\$ 637,709	\$ 629,691	\$ 631,399	\$ 752,035	\$ 547,742	\$ 536,615
Public works.....	1,343,542	993,547	1,048,598	997,573	1,057,308	935,299	961,408	874,340	826,386
Health and social services	6,858	3,929	3,929	3,929	3,929	2,953	2,952	2,952	2,835
Culture and recreation.....	1,010,385	897,248	931,256	958,363	888,419	995,473	802,011	759,001	803,698
Community and economic development.....	138,720	117,753	405,374	608,006	533,219	211,124	481,581	55,638	261,792
General government	297,800	247,610	251,369	232,533	220,785	281,937	223,228	213,015	186,036
Debt service.....	246,775	268,654	271,216	357,027	335,041	644,290	558,279	425,825	499,198
Capital projects.....	191,464	319,213	937,722	883,829	258,537	514	12,253	207,339	49,353
Total Disbursements	\$ 3,977,577	\$ 3,506,543	\$ 4,520,326	\$ 4,678,969	\$ 3,926,929	\$ 3,702,989	\$ 3,793,747	\$ 3,085,852	\$ 3,165,913

HOGAN • HANSEN

A Professional Corporation

Certified Public Accountants and Consultants

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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Cresco, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 18, 2011. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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'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 Cresco's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Cresco'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency in internal control 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 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 a material misstatement of the City of Cresco's financial statements will not be prevented or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cresco'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters which are described in Part II of the accompanying schedule of findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 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's responses to findings identified in our audit are described in the accompanying schedule of findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Cresco'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 of Cresco may report, including 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.



HOGAN - HANSEN

Mason City, Iowa
November 18, 2011

Schedule of Findings

Year Ended June 30, 2011

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

There were no current year instances of noncompliance noted.

Internal Control Deficiencies

There were no current year matters noted.

Schedule of Findings

Year Ended June 30, 2011

Part II: Other Findings Related to Statutory Reporting:

- 11-II-A Certified Budget** - Disbursements for the year ended June 30, 2011 did not exceed the amounts budgeted.
- 11-II-B Questionable Disbursements** - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion.
- 11-II-C Travel Expense** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 11-II-D Business Transactions** - Business transactions between the City of Cresco and City officials which may appear to be conflicts of interest are as follows:

Name, Title and Business Connection	Transaction Description	Amount
John Loveless, Council Member, Part owner of Cresco Shopper	Advertising and supplies	\$ 4,303
Jeffrey Holmstrom, Volunteer Fireman, Computer Professionals Unlimited	Computer maintenance and supplies	4,375

In accordance with Chapter 362.5 of the Code of Iowa, the transactions with Council Member Loveless, and Volunteer Fireman Holmstrom may represent conflicts of interest since a competitive bidding process was not utilized and the total of the transactions were 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 and supply costs). 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.

- 11-II-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.
- 11-II-F Council Minutes** - Minutes of Council proceedings were published within 15 days as required by Chapter 372.13(6) of the Code of Iowa.
- 11-II-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.
- 11-II-H Revenue Notes** - No instances of noncompliance with the revenue note resolutions were noted.

Schedule of Findings

Year Ended June 30, 2011

11-II-I Tax Increment Financing - In June, 2007, to further the objectives of the Cresco Urban Renewal Area Plan, the City undertook a program for the clearance and reconstruction or rehabilitation of an economic area in the City. As part of this program, the City entered into a private development agreement with Spahn & Rose Lumber Co. to construct and operate a lumber yard on the designated development property.

On December 1, 2008, the City certified \$94,176 as T.I.F. debt representing the City's obligation under this private development agreement. As of June 30, 2011, the City has collected and remitted \$35,625 to Spahn & Rose Lumber Co, leaving a remaining obligation of \$58,551. The fund balance in the Urban Renewal T.I.F. Area Fund was \$63,590 at June 30, 2011. Therefore, the City has excess funds in the Urban Renewal T.I.F. Area Fund in the amount of \$5,039, at June 30, 2011, and it appears the excess fund balance was generated from a prior T.I.F. debt obligation.

Auditor's Recommendation - We recommend the City investigate the source of the excess fund balance and de-certify excess T.I.F. debt balances by December 1, 2011.

City's Response - We will investigate this balance and file corrected reports with the Howard County Auditor by December 1, 2011.

Auditor's Conclusion - Response accepted.