

**CITY OF CRESCO, IOWA**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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# Officials

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Name	Title	Term Expires
<b>Elected Officials</b>		
(Before January, 2012)		
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
(After January, 2012)		
Mark Bohle	Mayor	January, 2014
John Loveless	Mayor Pro Tem	January, 2016
Teresa McGee	Council Member	January, 2016
Jan Carman	Council Member	January, 2016
Amy Bouska	Council Member	January, 2014
Steve McCarville	Council Member	January, 2014
<b>Appointed Officials</b>		
Michelle Girolamo	City Clerk	Indefinite
Joseph P. Braun	Attorney	Indefinite
Rodney Freidhof	Public Works Director	Indefinite

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# HOGAN • HANSEN

*A Professional Corporation*

Certified Public Accountants and Consultants

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2012, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Cresco'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 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, 2012, 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 December 14, 2012 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 on 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cresco'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 nine years ended June 30, 2011 (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. The supplementary information included on pages 25 through 29 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards general accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cresco's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 10 and page 24 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*HOGAN - HANSEN*

HOGAN - HANSEN

Mason City, Iowa  
December 14, 2012

**City of Cresco, Iowa**  
**Management's Discussion and Analysis**  
**June 30, 2012**

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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

**2012 FINANCIAL HIGHLIGHTS**

Receipts of the City's governmental activities decreased approximately \$62,000 from fiscal year 2011 to fiscal year 2012. This decrease is primarily due to less bond proceeds in the current fiscal year, offset by an increase in taxes, proceeds from sale of capital assets and receipt of grant money from the Iowa Finance Authority.

Disbursements for governmental activities increased approximately \$648,000 in fiscal year 2012 from fiscal year 2011. This is mainly due to an increase in expenditures for capital projects for sewer and street construction projects.

The City's total cash basis net assets increased \$388,621 from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased \$94,994 and the assets of the business-type activities increased by \$293,627.

**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.

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

Supplementary information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

## **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 and Employee Benefits; (c) the Debt Service Fund and (d) the Capital Projects Funds Sewer 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 \$3,830,542 a year ago to \$3,925,536. The analysis that follows focuses on the changes in cash balances for governmental activities.

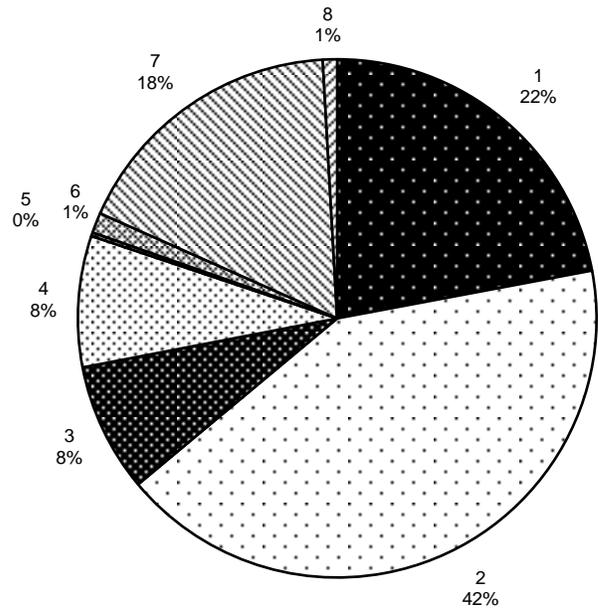
### Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Receipts and Transfers		
Program Receipts		
Charges for service	\$ 1,050,271	\$ 1,040,003
Operating grants, contributions and restricted interest	832,152	580,989
General Receipts		
Property and other city tax	1,995,573	1,710,926
Local option sales tax	382,660	367,904
Unrestricted interest on investments	11,077	33,991
Loan proceeds	389,788	1,081,900
Proceeds of capital assets sold	59,937	8,500
Other general receipts	40,426	37,636
Transfers, net	<u>2,000</u>	<u>(36,244)</u>
Total Receipts and Transfers	<u>4,763,884</u>	<u>4,825,605</u>
Disbursements and Transfers		
Public safety	770,371	739,707
Public works	1,148,001	1,392,058
Health and social services	1,000	6,858
Culture and recreation	991,965	1,007,958
Community and economic development	171,309	138,720
General government	293,431	297,195
Debt service	343,687	219,875
Capital projects	<u>949,126</u>	<u>218,364</u>
Total Disbursements and Transfers	<u>4,668,890</u>	<u>4,020,735</u>
Increase in Cash Basis Net Assets	94,994	804,870
Cash basis net assets - beginning of year	<u>3,830,542</u>	<u>3,025,672</u>
<b>Cash Basis Net Assets - End of Year</b>	<b><u>\$ 3,925,536</u></b>	<b><u>\$ 3,830,542</u></b>

### Receipts 2012

1. Charges for service	\$ 1,050,271
2. Property and other city tax	1,995,573
3. Local option sales tax	382,660
4. Loan proceeds	389,788
5. Unrestricted interest	11,077
6. Sale of assets	59,937
7. Operating grants	832,152
8. Transfers and other	<u>42,426</u>

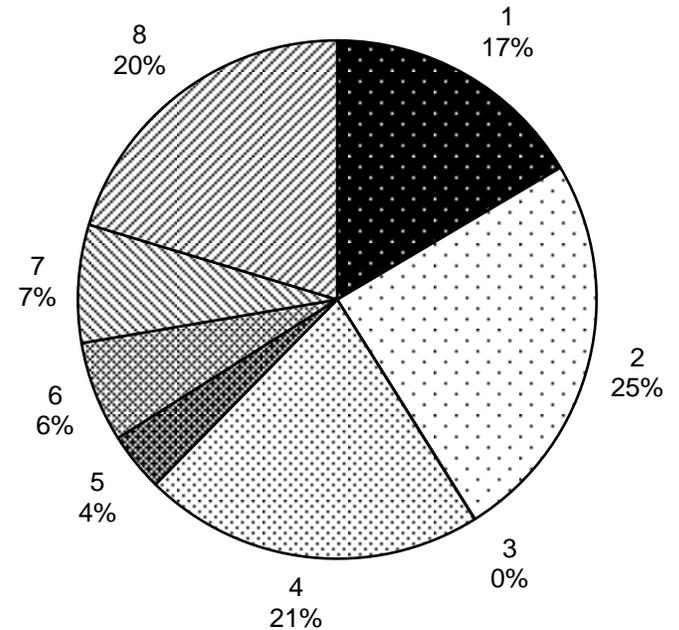
**Total** **\$ 4,763,884**



### Disbursements 2012

1. Public safety	\$ 770,371
2. Public works	1,148,001
3. Health and social services	1,000
4. Culture and recreation	991,965
5. Community and economic development	171,309
6. General government	293,431
7. Debt service	343,687
8. Capital projects	<u>949,126</u>

**Total** **\$ 4,668,890**



The City's total receipts for governmental activities decreased by 1%, or \$61,721. The decrease was due to less bond proceeds offset by an increase in taxes, proceeds from sale of capital assets and receipt of grant money.

The total cost of all programs and services increased by \$648,155 or 16%. The majority of this increase was in the capital projects function.

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

	<b>Year Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
Receipts and Transfers		
Program Receipts		
Charges for Service		
Water	\$ 494,301	\$ 457,124
Sewer	744,789	699,957
Other proprietary	83,147	83,121
General Receipts		
Sale of assets	1,242	1,634
Unrestricted interest on investments	2,639	9,960
Other general receipts	12,212	5,694
Net transfers	(2,000)	36,244
Total Receipts and Transfers	1,336,330	1,293,734
Disbursements		
Water	430,993	531,063
Sewer	579,588	560,834
Other proprietary	32,122	33,065
Total Disbursements	1,042,703	1,124,962
Increase in Cash Basis Net Assets	293,627	168,772
Cash basis net assets - beginning of year	1,417,125	1,248,353
<b>Cash Basis Net Assets - End of Year</b>	<b>\$ 1,710,752</b>	<b>\$ 1,417,125</b>

Total business-type activities receipts for the fiscal year were \$1,336,330 compared to \$1,293,734 last year. The increase was the result of an increase in the rates for charges for service. The cash balance increased by \$293,627, or 21%, from the prior year. Total disbursements for the fiscal year decreased by 7%, or \$82,259. This decrease in disbursements was primarily due to it being the third year of the water meter replacement program in 2011 and that it was the last year of the purchase of meters. New controls and a truck for the water department were also purchased in 2011.

### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City of Cresco's governmental funds reported a combined fund balance of \$3,888,980, an increase of \$81,959 from last year's total of \$3,807,021.

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 \$163,624 from the prior year to \$1,778,770. This increase was largely due to property tax increases due to valuation increases, the sale of two nuisance properties and a change in allocation of cable franchise fees so that more was allocated to the General Fund. Expenses decreased due to the police garage built in 2011 and the change in administrative personnel and allocation of wages.

The Road Use Tax Fund cash balance increased by \$35,743 to \$524,940 during the fiscal year. This increase is due to the mild winter so there were less snow removal costs for wages and fuel. The heating bill was also lower than normal. Repairs were less than anticipated which can also be attributed to less snow removal so equipment was used less.

The Employee Benefits Fund cash balance increased \$71,200 to \$465,809 during the fiscal year. This year the City received \$495,330 in property taxes with additional revenue coming from interest on a certificate of deposit and utility tax replacement. Total revenue was \$517,881. 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 \$20,049 over the fiscal year ended June 30, 2011.

The Capital Projects - Sewer Project Fund cash balance decreased \$235,928 to \$8,137 during the fiscal year. This decrease was largely due to bond proceeds which were received in the previous fiscal year and project expenses which were not paid until this fiscal year.

**INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS**

The Water Fund cash balance increased by \$69,920 to \$350,622, due to revenue from sales increasing more than anticipated. The cost of health insurance premiums did not increase as much as anticipated, and the City did not replace as many fire hydrants and valves as had been budgeted.

The Sewer Fund cash balance increased by \$166,528 to \$983,693 due to revenue from sales being more than budgeted. We also collected fines from violations of a sewer industrial agreement that was not anticipated. Electricity was lower than budgeted because the sludge storage unit was not in service the whole year and energy conservation practices were implemented.

**BUDGETARY HIGHLIGHTS**

Over the course of the year ended June 30, 2012, the City amended its budget three times. The amendments were approved on September 19, 2011, November 7, 2011 and May 21, 2012. The amendments resulted in \$26,950 in more expenses so the total budgeted loss was \$655,978 for the year. Due to timing issues, grants and SRF loan proceeds along with corresponding project expenses were received in FY12 because projects were not finished in FY11. New projects, including a street project, updating the comprehensive plan, airport improvements, theatre improvements and a down payment on a fire truck were added to this budget. Some were reimbursed by grants. There were also several unexpected repairs that needed to be done.

**DEBT ADMINISTRATION**

**Outstanding Debt at Year End**

General obligation notes	\$ 2,403,000
Revenue notes	<u>736,688</u>
<b>Totals</b>	<b><u>\$ 3,139,688</u></b>

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 \$2,403,000 is below its constitutional debt limit of \$8,951,652.

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

There was one amendment to the 2012/2013 budget due to a project not being completed last year as anticipated so the loan proceeds and expenses are in the 2012/2013 budget. There have also been many repairs paid and some were covered by insurance. Some unexpected expenses occurred that will be paid by reserves and a water main looping project has been approved. The City is refinancing a 2007 GO Capital Loan Note to save about \$165,000. Along with the refinancing, the City is borrowing an additional \$450,000 for projects including the fire truck and water main looping and valve replacement as well as several other small projects. Interest rates remain low so it is a good time to borrow money and the City anticipates paying off the loan for new projects with money in reserves rather than increasing the debt levy. The City has been doing feasibility studies for future industrial growth and annexation studies. The limited road use tax collected is still forcing the City to use local option sales taxes to fund the Road Use Tax Fund. The City continues to struggle to keep property 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**

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

Year Ended June 30, 2012

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	
<b>Governmental Activities</b>							
Public safety .....	\$ 770,371	\$ 27,242	\$ 26,729	\$ (716,400)	\$ —	\$ (716,400)	\$ —
Public works .....	1,148,001	552,193	383,421	(212,387)	—	(212,387)	—
Health and social services .....	1,000	—	—	(1,000)	—	(1,000)	—
Culture and recreation .....	991,965	423,964	35,266	(532,735)	—	(532,735)	—
Community and economic development .....	171,309	200	111,736	(59,373)	—	(59,373)	—
General government .....	293,431	46,672	—	(246,759)	—	(246,759)	—
Debt service .....	343,687	—	—	(343,687)	—	(343,687)	—
Capital projects .....	949,126	—	275,000	(674,126)	—	(674,126)	—
<b>Total Governmental Activities .....</b>	<b>4,668,890</b>	<b>1,050,271</b>	<b>832,152</b>	<b>(2,786,467)</b>	<b>—</b>	<b>(2,786,467)</b>	<b>—</b>
<b>Business-Type Activities</b>							
Water .....	430,993	494,301	—	—	63,308	63,308	—
Sewer .....	579,588	744,789	—	—	165,201	165,201	—
Other proprietary .....	32,122	83,147	—	—	51,025	51,025	—
<b>Total Business-Type Activities .....</b>	<b>1,042,703</b>	<b>1,322,237</b>	<b>—</b>	<b>—</b>	<b>279,534</b>	<b>279,534</b>	<b>—</b>
<b>Total .....</b>	<b>\$ 5,711,593</b>	<b>\$ 2,372,508</b>	<b>\$ 832,152</b>	<b>(2,786,467)</b>	<b>279,534</b>	<b>(2,506,933)</b>	<b>—</b>
<b>Component Units</b>							
Cresco Public Library Foundation .....	\$ 4,793	—	\$ 21,123	—	—	—	16,330
Cresco Fire Fighters, Inc. ....	16,585	—	29,634	—	—	—	13,049
<b>Total Component Units .....</b>	<b>\$ 21,378</b>	<b>—</b>	<b>\$ 50,757</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>29,379</b>
<b>General Receipts</b>							
Property and Other City Tax Levied for							
General purposes .....				1,164,697	—	1,164,697	—
Tax increment financing .....				18,280	—	18,280	—
Debt service .....				307,612	—	307,612	—
Employee benefits .....				504,984	—	504,984	—
Local option sales tax .....				382,660	—	382,660	—
Unrestricted interest on investments .....				11,077	2,639	13,716	4,696
Miscellaneous .....				40,427	12,212	52,639	—
Sewer revenue note proceeds .....				389,788	—	389,788	—
Sale of assets .....				59,936	1,242	61,178	—
Transfers .....				2,000	(2,000)	—	—
<b>Total General Receipts and Transfers .....</b>				<b>2,881,461</b>	<b>14,093</b>	<b>2,895,554</b>	<b>4,696</b>
<b>Change in Cash Basis Net Assets .....</b>				<b>94,994</b>	<b>293,627</b>	<b>388,621</b>	<b>34,075</b>
Cash Basis Net Assets - Beginning of Year .....				3,830,542	1,417,125	5,247,667	284,681
<b>Cash Basis Net Assets - End of Year .....</b>				<b>\$ 3,925,536</b>	<b>\$ 1,710,752</b>	<b>\$ 5,636,288</b>	<b>\$ 318,756</b>
<b>Cash Basis Net Assets</b>							
Restricted							
Expendable							
Debt service .....				\$ 227,450	\$ 247,295	\$ 474,745	\$ —
Streets .....				524,940	—	524,940	—
Capital projects .....				349,120	—	349,120	—
Other purposes .....				978,700	—	978,700	—
Unrestricted .....				1,845,326	1,463,457	3,308,783	318,756
<b>Total Cash Basis Net Assets .....</b>				<b>\$ 3,925,536</b>	<b>\$ 1,710,752</b>	<b>\$ 5,636,288</b>	<b>\$ 318,756</b>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2012

	General	Special Revenue		Capital Project	Other Nonmajor	Total
		Road Use Tax	Employee Benefits	Sewer Project	Governmental Funds	
<b>Receipts</b>						
Property tax .....	\$ 1,007,228	\$ —	\$ 495,330	\$ —	\$ 301,814	\$ 1,804,372
T.I.F. collections .....	—	—	—	—	18,280	18,280
Other city tax .....	438,106	—	9,654	—	5,798	453,558
Licenses and permits .....	13,161	—	—	—	—	13,161
Use of money and property .....	53,141	12	674	313	6,474	60,614
Intergovernmental .....	51,427	366,884	—	275,000	76,299	769,610
Charges for service .....	940,448	—	—	—	—	940,448
Special assessments.....	1,692	—	—	—	100,332	102,024
Miscellaneous.....	77,572	—	12,223	968	59,330	150,093
<b>Total Receipts .....</b>	<b><u>2,582,775</u></b>	<b><u>366,896</u></b>	<b><u>517,881</u></b>	<b><u>276,281</u></b>	<b><u>568,327</u></b>	<b><u>4,312,160</u></b>
<b>Disbursements</b>						
Operating						
Public safety .....	593,729	—	178,335	—	2,600	774,664
Public works .....	711,915	331,153	109,173	—	—	1,152,241
Health and social services.....	1,000	—	—	—	—	1,000
Culture and recreation .....	836,699	—	122,081	—	36,823	995,603
Community and economic development .....	61,691	—	—	—	109,330	171,021
General government.....	257,491	—	37,092	—	—	294,583
Debt service .....	—	—	—	—	343,687	343,687
Capital projects.....	—	—	—	651,997	297,129	949,126
<b>Total Disbursements .....</b>	<b><u>2,462,525</u></b>	<b><u>331,153</u></b>	<b><u>446,681</u></b>	<b><u>651,997</u></b>	<b><u>789,569</u></b>	<b><u>4,681,925</u></b>
<b>Receipts Over (Under) Disbursements.....</b>	<b><u>120,250</u></b>	<b><u>35,743</u></b>	<b><u>71,200</u></b>	<b><u>(375,716)</u></b>	<b><u>(221,242)</u></b>	<b><u>(369,765)</u></b>
<b>Other Financing Sources (Uses)</b>						
Sewer revenue capital loan proceeds	—	—	—	389,788	—	389,788
Sale of capital assets .....	59,936	—	—	—	—	59,936
Operating transfers in.....	81,704	—	—	—	430,016	511,720
Operating transfers out.....	(98,266)	—	—	(250,000)	(161,454)	(509,720)
<b>Total Other Financing Sources (Uses).....</b>	<b><u>43,374</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>139,788</u></b>	<b><u>268,562</u></b>	<b><u>451,724</u></b>
<b>Increase (Decrease) in Cash Balances.....</b>	<b><u>163,624</u></b>	<b><u>35,743</u></b>	<b><u>71,200</u></b>	<b><u>(235,928)</u></b>	<b><u>47,320</u></b>	<b><u>81,959</u></b>
Cash Balances - Beginning of Year.	1,615,146	489,197	394,609	244,065	1,064,004	3,807,021
<b>Cash Balances - End of Year.....</b>	<b><u>\$ 1,778,770</u></b>	<b><u>\$ 524,940</u></b>	<b><u>\$ 465,809</u></b>	<b><u>\$ 8,137</u></b>	<b><u>\$ 1,111,324</u></b>	<b><u>\$ 3,888,980</u></b>
<b>Cash Basis Fund Balances</b>						
Restricted for						
Debt service.....	\$ —	\$ —	\$ —	\$ —	\$ 227,450	\$ 227,450
Streets .....	—	524,940	—	—	—	524,940
Capital projects.....	—	—	—	8,137	340,983	349,120
Other purposes.....	—	—	465,809	—	512,891	978,700
Committed to						
Telecommunications.....	88,444	—	—	—	—	88,444
Airpacks and turnout gear.....	—	—	—	—	30,000	30,000
Assigned for						
Equipment replacement.....	31,920	—	—	—	—	31,920
Other purposes.....	270,750	—	—	—	—	270,750
Unassigned .....	1,387,656	—	—	—	—	1,387,656
<b>Total Cash Basis Fund Balances</b>	<b><u>\$ 1,778,770</u></b>	<b><u>\$ 524,940</u></b>	<b><u>\$ 465,809</u></b>	<b><u>\$ 8,137</u></b>	<b><u>\$ 1,111,324</u></b>	<b><u>\$ 3,888,980</u></b>

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

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As of June 30, 2012

<b>Total Fund Balances for Governmental Funds (Page 12).....</b>	<b>\$ 3,888,980</b>
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***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 .....

36,556

<b>Cash Basis Net Assets of Governmental Activities (Page 11) .....</b>	<b><u>\$ 3,925,536</u></b>
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<b>Net Change in Cash Balances (Page 12) .....</b>	<b>\$ 81,959</b>
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***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 .....

13,035

<b>Change in Cash Basis Net Assets of Governmental Activities (Page 11) .....</b>	<b><u>\$ 94,994</u></b>
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# Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Proprietary Funds

Year Ended June 30, 2012

	Enterprise Funds			Total	Internal Service Fund Employee Health
	Water	Sewer	Nonmajor Proprietary Funds		
<b>Operating Receipts</b>					
Charges for service .....	\$ 451,979	\$ 718,163	\$ 83,147	\$ 1,253,289	\$ —
Miscellaneous .....	50,910	30,251	—	81,161	32,566
<b>Total Operating Receipts .....</b>	<b><u>502,889</u></b>	<b><u>748,414</u></b>	<b><u>83,147</u></b>	<b><u>1,334,450</u></b>	<b><u>32,566</u></b>
<b>Operating Disbursements</b>					
Business-type activities.....	433,793	513,673	32,122	979,588	—
General government .....	—	—	—	—	14,000
<b>Total Operating Disbursements ....</b>	<b><u>433,793</u></b>	<b><u>513,673</u></b>	<b><u>32,122</u></b>	<b><u>979,588</u></b>	<b><u>14,000</u></b>
<b>Operating Receipts Over Operating Disbursements .....</b>	<b><u>69,096</u></b>	<b><u>234,741</u></b>	<b><u>51,025</u></b>	<b><u>354,862</u></b>	<b><u>18,566</u></b>
<b>Nonoperating Receipts (Disbursements)</b>					
Interest on investments.....	582	1,502	555	2,639	69
Debt service .....	—	(68,715)	—	(68,715)	—
<b>Net Nonoperating Receipts (Disbursements) .....</b>	<b><u>582</u></b>	<b><u>(67,213)</u></b>	<b><u>555</u></b>	<b><u>(66,076)</u></b>	<b><u>69</u></b>
<b>Receipts Over Disbursements.....</b>	<b><u>69,678</u></b>	<b><u>167,528</u></b>	<b><u>51,580</u></b>	<b><u>288,786</u></b>	<b><u>18,635</u></b>
<b>Other Financing Sources (Uses)</b>					
Sale of capital assets .....	1,242	—	—	1,242	—
Transfers out.....	(1,000)	(1,000)	—	(2,000)	—
<b>Total Other Financing Sources (Uses) .....</b>	<b><u>242</u></b>	<b><u>(1,000)</u></b>	<b><u>—</u></b>	<b><u>(758)</u></b>	<b><u>—</u></b>
<b>Increase in Cash Balances.....</b>	<b>69,920</b>	<b>166,528</b>	<b>51,580</b>	<b>288,028</b>	<b>18,635</b>
Cash Balances - Beginning of Year .....	280,702	817,165	310,201	1,408,068	32,578
<b>Cash Balances - End of Year .....</b>	<b><u>\$ 350,622</u></b>	<b><u>\$ 983,693</u></b>	<b><u>\$ 361,781</u></b>	<b><u>\$ 1,696,096</u></b>	<b><u>\$ 51,213</u></b>
<b>Cash Basis Fund Balances</b>					
Restricted for debt service .....	\$ —	\$ 91,840	\$ —	\$ 91,840	\$ —
Committed to callable loans .....	—	155,455	—	155,455	—
Unrestricted .....	350,622	736,398	361,781	1,448,801	51,213
<b>Total Cash Basis Fund Balances .....</b>	<b><u>\$ 350,622</u></b>	<b><u>\$ 983,693</u></b>	<b><u>\$ 361,781</u></b>	<b><u>\$ 1,696,096</u></b>	<b><u>\$ 51,213</u></b>

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

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Year Ended June 30, 2012

**Total Enterprise Funds Cash Balances (Page 14).....** **\$ 1,696,096**

*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 .....

14,656

**Cash Basis Net Assets of Business-Type Activities (Page 11).....** **\$ 1,710,752**

**Net Change in Cash Balances (Page 14) .....** **\$ 288,028**

*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 .....

5,599

**Change in Cash Basis Net Assets of Business-Type Activities (Page 11) .....** **\$ 293,627**

## Notes to the Financial Statements

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

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

#### **Reporting Entity**

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

These financial statements present the City of Cresco (the primary government) and its discretely presented component 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, 2011.

#### **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.

# Notes to the Financial Statements

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## (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, 2012 were \$2,327,505.

*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

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## (1) Summary of Significant Accounting Policies

### *Capital Projects*

The *Capital Project - Sewer Project Fund* is used to account for the bond proceeds received and expenses related to the sewer project.

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

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## (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 Other Information. Disbursements for the year ended June 30, 2012 did not exceed the amounts budgeted.

## (2) Deposits and Investments

The City's deposits at June 30, 2012 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, 2012.

## Component Units

The Cresco Public Library Foundation deposits at June 30, 2012 are shown below.

Certificates of deposit .....	\$ 208,203
Checking/savings .....	42,079
	<u>\$ 250,282</u>

Cresco Fire Fighters, Inc. deposits at December 31, 2011 are shown below:

Certificates of deposit .....	\$ 10,066
Checking/savings .....	58,408
	<u>\$ 68,474</u>

## Notes to the Financial Statements

### (3) Notes Payable

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

Ending June 30,	General Obligation Notes		Sewer Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013 .....	\$ 258,000	\$ 78,653	\$ 50,000	\$ 22,101	\$ 308,000	\$ 100,754
2014 .....	268,000	72,135	51,000	20,601	319,000	92,736
2015 .....	274,000	65,055	54,000	19,071	328,000	84,126
2016 .....	290,000	57,438	56,000	17,451	346,000	74,889
2017 .....	220,000	48,863	58,000	15,771	278,000	64,634
2018-2022 .....	673,000	158,830	282,000	51,283	955,000	210,113
2023-2027 .....	420,000	45,000	138,000	19,783	558,000	64,783
2028-2030 .....	—	—	47,688	1,962	47,688	1,962
	<b><u>\$ 2,403,000</u></b>	<b><u>\$ 525,974</u></b>	<b><u>\$ 736,688</u></b>	<b><u>\$ 168,023</u></b>	<b><u>\$ 3,139,688</u></b>	<b><u>\$ 693,997</u></b>

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay 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 2030, respectively. At June 30, 2012, the total principal and interest remaining to be paid on the notes is \$904,711. Sewer user charges must be established at a level which produces and maintains net revenue at a level not less than 110% of principal and interest falling due in the same year. For the current year, principal, interest and fees paid and total customer net receipts were \$68,715 and \$234,741, 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, 2012.

## Notes to the Financial Statements

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

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

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012, 2011 and 2010 were \$121,003, \$109,321 and \$100,742, respectively, equal to the required contributions for each year.

### **(5) 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 24 active members and 5 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 \$409 for single coverage and \$1,049 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed a total of \$298,851 and plan members eligible for benefits contributed a total of \$30,883 to the plan.

### **(6) 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.

## Notes to the Financial Statements

### (6) Compensated Absences

These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate maximum liability for earned compensatory time off, vacation and sick leave payments (including related fringe benefits) payable to employees at June 30, 2012, primarily relating to the General Fund was as follows:

Type of Benefit	Amount
Compensatory time off .....	\$ 30,216
Vacation .....	106,905
Sick leave .....	<u>535,791</u>
<b>Total</b> .....	<b><u>\$ 672,912</u></b>

This liability has been computed based on rates of pay as of June 30, 2012 and includes a 44.95% fringe benefits factor.

### (7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue	
	Expendable Trust	\$ 6,195
	Enterprise	
	Water	1,000
	Sewer	1,000
	Capital Projects	
	Street Shop	<u>73,509</u>
		<u>81,704</u>
Capital Projects		
Smart Planning Grant	General	<u>30,000</u>
2nd Avenue Project	Sewer Project	250,000
	Street 1st Avenue Project	<u>81,750</u>
		<u>331,750</u>
Special Revenue		
Expendable Trust	General	<u>30,000</u>
Debt Service	General	<u>38,266</u>
<b>Total</b>		<b><u>\$ 511,720</u></b>

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

### **(8) 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.

### **(9) Commitments**

At June 30, 2012, the City had entered into various contracts totaling approximately \$214,000 for street improvements.

### **(10) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$11,026 during the year ended June 30, 2012.

### **(11) Subsequent Events**

Management has evaluated subsequent events through December 14, 2012, the date which the financial statements were available to be issued.

Subsequent to June 30, 2012, the City approved several bids totaling approximately \$259,000 for various projects and the City took action to issue \$1.8 million of general obligation bonds to be used for various projects.

**Other Information** 

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

Year Ended June 30, 2012

	Governmental Funds - Actual	Proprietary Funds - Actual	Less Funds Not Required to be Budgeted	Net Actual	Budgeted Amounts		Final to Net Actual Variance
					Original	Final	
<b>Receipts</b>							
Property tax.....	\$ 1,804,372	\$ —	\$ —	\$ 1,804,372	\$ 1,792,997	\$ 1,792,997	\$ 11,375
T.I.F. collections.....	18,280	—	—	18,280	18,000	18,000	280
Other city tax.....	453,558	—	—	453,558	483,597	483,597	(30,039)
Licenses and permits.....	13,161	—	—	13,161	13,065	13,065	96
Use of money and property.....	60,614	2,708	69	63,253	90,963	90,963	(27,710)
Intergovernmental.....	769,610	—	—	769,610	546,277	935,377	(165,767)
Charges for service.....	940,448	1,253,289	—	2,193,737	2,103,100	2,103,100	90,637
Special assessments.....	102,024	—	—	102,024	—	—	102,024
Miscellaneous.....	150,093	113,727	32,566	231,254	125,328	128,828	102,426
<b>Total Receipts</b> .....	<b>4,312,160</b>	<b>1,369,724</b>	<b>32,635</b>	<b>5,649,249</b>	<b>5,173,327</b>	<b>5,565,927</b>	<b>83,322</b>
<b>Disbursements</b>							
Public safety.....	774,664	—	—	774,664	776,385	825,485	50,821
Public works.....	1,152,241	—	—	1,152,241	1,197,375	1,254,375	102,134
Health and social services.....	1,000	—	—	1,000	4,000	4,000	3,000
Culture and recreation.....	995,603	—	—	995,603	1,002,605	1,080,605	85,002
Community and economic development.....	171,021	—	—	171,021	231,200	354,150	183,129
General government.....	294,583	14,000	14,000	294,583	367,430	371,430	76,847
Debt service.....	343,687	—	—	343,687	345,810	345,810	2,123
Capital projects.....	949,126	—	—	949,126	660,000	1,245,000	295,874
Business-type activities.....	—	1,048,303	—	1,048,303	1,217,550	1,277,050	228,747
<b>Total Disbursements</b> .....	<b>4,681,925</b>	<b>1,062,303</b>	<b>14,000</b>	<b>5,730,228</b>	<b>5,802,355</b>	<b>6,757,905</b>	<b>1,027,677</b>
<b>Excess (Deficiency) of Receipts Over (Under) Disbursements</b> .....	<b>(369,765)</b>	<b>307,421</b>	<b>18,635</b>	<b>(80,979)</b>	<b>(629,028)</b>	<b>(1,191,978)</b>	<b>1,110,999</b>
<b>Other Financing Sources (Uses), Net</b> .....	<b>451,724</b>	<b>(758)</b>	<b>—</b>	<b>450,966</b>	<b>—</b>	<b>526,000</b>	<b>(75,034)</b>
<b>Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses</b> .....	<b>81,959</b>	<b>306,663</b>	<b>18,635</b>	<b>369,987</b>	<b>(629,028)</b>	<b>(665,978)</b>	<b>1,035,965</b>
Balances - Beginning of Year.....	3,807,021	1,440,646	32,578	5,215,089	4,152,116	5,247,218	(32,129)
<b>Balances - End of Year</b> .....	<b>\$ 3,888,980</b>	<b>\$ 1,747,309</b>	<b>\$ 51,213</b>	<b>\$ 5,585,076</b>	<b>\$ 3,523,088</b>	<b>\$ 4,581,240</b>	<b>\$ 1,003,836</b>

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except 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 \$799,100. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

**Supplementary Information**

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

Year Ended June 30, 2012

	Special Revenue				Capital Projects				Debt Service	Total
	Urban Renewal T.I.F. Area	CIDC Revolving Loan	State Grants/Economic Development	Expendable Trust	Street Shop Project	1st Avenue Street Project	Smart Planning Grant	2nd Avenue Reconstruction		
<b>Receipts</b>										
Property tax.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 301,814	\$ 301,814
T.I.F. collections.....	18,280	—	—	—	—	—	—	—	—	18,280
Other city tax.....	—	—	—	—	—	—	—	—	5,798	5,798
Use of money and property.....	113	3,814	—	1,700	120	164	7	55	501	6,474
Intergovernmental.....	—	—	2,962	56,705	—	—	16,632	—	—	76,299
Special assessments.....	—	—	—	—	—	100,332	—	—	—	100,332
Miscellaneous.....	—	33,827	—	25,503	—	—	—	—	—	59,330
<b>Total Receipts.....</b>	<b>18,393</b>	<b>37,641</b>	<b>2,962</b>	<b>83,908</b>	<b>120</b>	<b>100,496</b>	<b>16,639</b>	<b>55</b>	<b>308,113</b>	<b>568,327</b>
<b>Disbursements</b>										
Operating										
Public safety.....	—	—	—	2,600	—	—	—	—	—	2,600
Culture and recreation.....	—	—	—	36,823	—	—	—	—	—	36,823
Community and economic development.....	25,444	194	2,962	80,730	—	—	—	—	—	109,330
Debt service.....	—	—	—	—	—	—	—	—	343,687	343,687
Capital projects.....	—	—	—	—	3,002	256,666	24,824	12,637	—	297,129
<b>Total Disbursements.....</b>	<b>25,444</b>	<b>194</b>	<b>2,962</b>	<b>120,153</b>	<b>3,002</b>	<b>256,666</b>	<b>24,824</b>	<b>12,637</b>	<b>343,687</b>	<b>789,569</b>
<b>Receipts Over (Under) Disbursements.....</b>	<b>(7,051)</b>	<b>37,447</b>	<b>—</b>	<b>(36,245)</b>	<b>(2,882)</b>	<b>(156,170)</b>	<b>(8,185)</b>	<b>(12,582)</b>	<b>(35,574)</b>	<b>(221,242)</b>
<b>Other Financing Sources (Uses)</b>										
Operating transfers in.....	—	—	—	30,000	—	—	30,000	331,750	38,266	430,016
Operating transfers out.....	—	—	—	(6,195)	(73,509)	(81,750)	—	—	—	(161,454)
<b>Total Other Financing Sources (Uses).....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>23,805</b>	<b>(73,509)</b>	<b>(81,750)</b>	<b>30,000</b>	<b>331,750</b>	<b>38,266</b>	<b>268,562</b>
<b>Increase (Decrease) in Cash Balances.....</b>	<b>(7,051)</b>	<b>37,447</b>	<b>—</b>	<b>(12,440)</b>	<b>(76,391)</b>	<b>(237,920)</b>	<b>21,815</b>	<b>319,168</b>	<b>2,692</b>	<b>47,320</b>
Cash Balances - Beginning of Year.....	63,590	107,640	—	353,705	76,391	237,920	—	—	224,758	1,064,004
<b>Cash Balances - End of Year.....</b>	<b>\$ 56,539</b>	<b>\$ 145,087</b>	<b>\$ —</b>	<b>\$ 341,265</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 21,815</b>	<b>\$ 319,168</b>	<b>\$ 227,450</b>	<b>\$ 1,111,324</b>
<b>Cash Basis Fund Balances</b>										
Restricted for										
Debt service.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 227,450	\$ 227,450
Capital projects.....	—	—	—	—	—	—	21,815	319,168	—	340,983
Other purposes.....	56,539	145,087	—	311,265	—	—	—	—	—	512,891
Committed to airparks and turnout gear.....	—	—	—	30,000	—	—	—	—	—	30,000
<b>Total Cash Basis Fund Balances.....</b>	<b>\$ 56,539</b>	<b>\$ 145,087</b>	<b>\$ —</b>	<b>\$ 341,265</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 21,815</b>	<b>\$ 319,168</b>	<b>\$ 227,450</b>	<b>\$ 1,111,324</b>

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

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Year Ended June 30, 2012

	Municipal Sanitary Sewer Utility and Water Utility Capital Improvements	Yard Waste and Recycling	Total
<b>Operating Receipts</b>			
Charges for service .....	\$ 45,259	\$ 37,888	\$ 83,147
<b>Operating Disbursements</b>			
Business-type activities .....	<u>10,186</u>	<u>21,936</u>	<u>32,122</u>
<b>Operating Receipts Over Operating Disbursements .....</b>	<b>35,073</b>	<b>15,952</b>	<b>51,025</b>
<b>Nonoperating Receipts</b>			
Interest on investments .....	<u>408</u>	<u>147</u>	<u>555</u>
<b>Receipts Over Disbursements.....</b>	<b>35,481</b>	<b>16,099</b>	<b>51,580</b>
Cash Balance - Beginning of Year.....	<u>229,225</u>	<u>80,976</u>	<u>310,201</u>
<b>Cash Balance - End of Year .....</b>	<b><u>\$ 264,706</u></b>	<b><u>\$ 97,075</u></b>	<b><u>\$ 361,781</u></b>
<b>Cash Basis Fund Balances</b>			
Unreserved.....	<b><u>\$ 264,706</u></b>	<b><u>\$ 97,075</u></b>	<b><u>\$ 361,781</u></b>

## Schedule of Indebtedness

Year Ended June 30, 2012

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
<b>General Obligation Notes</b>								
Capital Loan Notes								
Series 2001B .....	\$ 253,000	8-1-01	3.00%	\$ 150,000	\$ —	\$ 12,000	\$ 138,000	\$ 5,550
Series 2007.....	1,885,000	1-8-07	3.75 - 4.40	1,460,000	—	125,000	1,335,000	58,847
Series 2010.....	1,050,000	11-15-10	1.20 - 3.75	<u>1,050,000</u>	<u>—</u>	<u>120,000</u>	<u>930,000</u>	<u>22,290</u>
<b>Total General Obligation Notes .....</b>				<b><u>\$ 2,660,000</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 257,000</u></b>	<b><u>\$ 2,403,000</u></b>	<b><u>\$ 86,687</u></b>
<b>Sewer Revenue Capital Loan Notes</b>								
Series 2001 .....	\$ 600,000	8-1-01	3.00%	\$ 363,000	\$ —	\$ 30,000	\$ 333,000	\$ 13,431
Series 2011 .....	500,000*	6-8-11	3.00	<u>31,900</u>	<u>389,788</u>	<u>18,000</u>	<u>403,688</u>	<u>7,284</u>
<b>Total Sewer Revenue Capital Loan Notes.....</b>				<b><u>\$ 394,900</u></b>	<b><u>\$ 389,788</u></b>	<b><u>\$ 48,000</u></b>	<b><u>\$ 736,688</u></b>	<b><u>\$ 20,715</u></b>

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

## Schedule of Note Maturities

As of June 30, 2012

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		
2013	3.00%	\$ 13,000	3.75%	\$ 125,000	1.20%	\$ 120,000	\$ 258,000
2014	3.00	13,000	3.80	130,000	1.40	125,000	268,000
2015	3.00	14,000	3.85	135,000	1.60	125,000	274,000
2016	3.00	15,000	3.90	145,000	1.90	130,000	290,000
2017	3.00	15,000	3.95	145,000	2.50	60,000	220,000
2018	3.00	16,000	4.00	60,000	2.50	60,000	136,000
2019	3.00	17,000	4.00	65,000	2.50	60,000	142,000
2020	3.00	17,000	4.00	65,000	3.10	65,000	147,000
2021	3.00	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
<b>Total</b>		<b>\$ 138,000</b>		<b>\$ 1,335,000</b>		<b>\$ 930,000</b>	<b>\$ 2,403,000</b>

Year Ending June 30,	Sewer Revenue				Total
	Capital Loan Notes				
	Issued August 1, 2001		Issued June 8, 2011		
	Interest Rates	Amount	Interest Rates	Amount	
2013	3.00%	\$ 31,000	3.00%	\$ 17,000	\$ 48,000
2014	3.00	32,000	3.00	18,000	50,000
2015	3.00	34,000	3.00	18,000	52,000
2016	3.00	35,000	3.00	19,000	54,000
2017	3.00	37,000	3.00	20,000	57,000
2018	3.00	38,000	3.00	20,000	58,000
2019	3.00	40,000	3.00	21,000	61,000
2020	3.00	42,000	3.00	22,000	64,000
2021	3.00	44,000	3.00	22,000	66,000
2022		—	3.00	23,000	23,000
2023		—	3.00	24,000	24,000
2024		—	3.00	25,000	25,000
2025		—	3.00	25,000	25,000
2026		—	3.00	26,000	26,000
2027		—	3.00	27,000	27,000
2028		—	3.00	28,000	28,000
2029		—	3.00	29,000	29,000
2030		—	3.00	19,688	19,688
<b>Total</b>		<b>\$ 333,000</b>		<b>\$ 403,688</b>	<b>\$ 736,688</b>

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

Years Ended June 30, 2003 Through 2012

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Receipts</b>										
Property tax.....	\$ 1,804,372	\$ 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.....	18,280	19,645	19,427	1,276	129,468	297,248	476,662	352,806	214,898	144,837
Other city tax.....	453,558	434,642	406,618	425,758	373,542	363,312	326,821	280,733	277,349	266,893
Licenses and permits.....	13,161	12,367	12,593	12,475	13,536	13,740	14,739	14,931	13,927	12,086
Use of money and property.....	60,614	82,522	87,950	91,424	136,944	107,094	82,320	59,135	58,211	56,024
Intergovernmental.....	769,610	469,936	428,138	681,859	1,351,428	784,852	400,676	432,214	466,198	539,194
Charges for service.....	940,448	930,141	891,148	884,095	871,211	846,977	830,777	830,207	814,309	812,344
Special assessments.....	102,024	947	1,168	1,442	1,435	2,281	13,269	18,818	34,925	4,563
Miscellaneous.....	<u>150,093</u>	<u>197,656</u>	<u>157,287</u>	<u>216,808</u>	<u>136,971</u>	<u>149,997</u>	<u>291,877</u>	<u>125,697</u>	<u>135,551</u>	<u>97,131</u>
<b>Total Receipts.....</b>	<b><u>\$ 4,312,160</u></b>	<b><u>\$ 3,771,449</u></b>	<b><u>\$ 3,578,851</u></b>	<b><u>\$ 3,815,752</u></b>	<b><u>\$ 4,511,015</u></b>	<b><u>\$ 3,865,856</u></b>	<b><u>\$ 3,655,869</u></b>	<b><u>\$ 3,368,990</u></b>	<b><u>\$ 3,325,140</u></b>	<b><u>\$ 3,227,079</u></b>
<b>Disbursements</b>										
Operating										
Public safety.....	\$ 774,664	\$ 742,033	\$ 658,589	\$ 670,862	\$ 637,709	\$ 629,691	\$ 631,399	\$ 752,035	\$ 547,742	\$ 536,615
Public works.....	1,152,241	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.....	1,000	6,858	3,929	3,929	3,929	3,929	2,953	2,952	2,952	2,835
Culture and recreation.....	995,603	1,010,385	897,248	931,256	958,363	888,419	995,473	802,011	759,001	803,698
Community and economic development.....	171,021	138,720	117,753	405,374	608,006	533,219	211,124	481,581	55,638	261,792
General government.....	294,583	297,800	247,610	251,369	232,533	220,785	281,937	223,228	213,015	186,036
Debt service.....	343,687	246,775	268,654	271,216	357,027	335,041	644,290	558,279	425,825	499,198
Capital projects.....	<u>949,126</u>	<u>191,464</u>	<u>319,213</u>	<u>937,722</u>	<u>883,829</u>	<u>258,537</u>	<u>514</u>	<u>12,253</u>	<u>207,339</u>	<u>49,353</u>
<b>Total Disbursements.....</b>	<b><u>\$ 4,681,925</u></b>	<b><u>\$ 3,977,577</u></b>	<b><u>\$ 3,506,543</u></b>	<b><u>\$ 4,520,326</u></b>	<b><u>\$ 4,678,969</u></b>	<b><u>\$ 3,926,929</u></b>	<b><u>\$ 3,702,989</u></b>	<b><u>\$ 3,793,747</u></b>	<b><u>\$ 3,085,852</u></b>	<b><u>\$ 3,165,913</u></b>

**Independent Auditor's 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**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2012, which collectively comprise the City's basic financial statements, as listed in the table of contents, and have issued our report thereon dated December 14, 2012. 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**

The management of the City of Cresco is responsible for establishing and maintaining effective 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 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 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, 2012 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*

HOGAN - HANSEN

Mason City, Iowa  
December 14, 2012

## Schedule of Findings

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Year Ended June 30, 2012

### **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 reported.

## Schedule of Findings

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Year Ended June 30, 2012

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

- 12-II-A Certified Budget** - Disbursements for the year ended June 30, 2012 did not exceed the amounts budgeted.
- 12-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.
- 12-II-C Travel Expense** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 12-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:

<b>Name, Title and Business Connection</b>	<b>Transaction Description</b>	<b>Amount</b>
John Loveless, Council Member, Part owner of Cresco Shopper	Advertising and supplies	\$ 3,644
Jeffrey Holmstrom, Volunteer Fireman, Computer Professionals Unlimited	Computer maintenance and supplies	5,646
Steve McCarville, Council Member, Campsite RV	LP tank fill and chip sealing	1,736

In accordance with Chapter 362.5 of the Code of Iowa, the transactions with Council Member Loveless, Volunteer Fireman Holmstrom and Council Member McCarville 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.

- 12-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.
- 12-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.
- 12-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.
- 12-II-H Revenue Notes** - No instances of noncompliance with the revenue note resolutions were noted.