

CITY OF CRESTON, IOWA

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

Year Ended June 30, 2012

CITY OF CRESTON, IOWA
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CITY OF CRESTON, IOWA
CITY OFFICIALS
June 30, 2012

<u>Name</u>	<u>Title</u> (Before January 1, 2012)	<u>Term Expires</u>
Warren Woods	Mayor	January 1, 2012
Larry Wynn	Council Member	January 1, 2012
Larry Wagner	Council Member	January 1, 2014
Randy White	Council Member	January 1, 2014
Terri Koets	Council Member	January 1, 2014
Loyal Winborn	Council Member	January 1, 2012
Betty Shelton	Council Member	January 1, 2014
Marsha Wilson	Council Member	January 1, 2012
Michael Taylor	City Administrator	---
Lisa Williamson	City Clerk	January 1, 2012
Arnold O. Kenyon, III	City Attorney	January 1, 2012
(After January 1, 2012)		
Warren Woods	Mayor	January 1, 2016
Nancy Loudon	Council Member	January 1, 2016
Larry Wagner	Council Member	January 1, 2014
Randy White	Council Member	January 1, 2014
Terri Koets	Council Member	January 1, 2014
Loyal Winborn	Council Member	January 1, 2016
Betty Shelton	Council Member	January 1, 2014
Marsha Wilson	Council Member	January 1, 2016
Michael Taylor	City Administrator	---
Lisa Williamson	City Clerk	January 1, 2013
Arnold O. Kenyon, III	City Attorney	January 1, 2013

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements, of the governmental activities, the business type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Creston, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Creston, Iowa's officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Creston, Iowa, as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

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

In accordance with Government Auditing Standards, we have also issued our report dated September 5, 2012, on our consideration of City of Creston, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 28 through 29 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Creston, Iowa's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight 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. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Drapen, Smidgrass, Mikkelsen + Co., P.C.

September 5, 2012

FINANCIAL STATEMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Creston provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ending June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Financial Highlights

Government Activities total revenues increased by \$1,707,132 from the previous fiscal year. Other City Tax, Use of Money and Property, Intergovernmental, Charges for Services, Special Assessments and Miscellaneous all increased. Tax Increment Financing, and License and Permits all decreased.

Government Activities total expenditures increased by \$2,102,038. Public Safety, Culture and Recreation, Community and Economic Development, General Government and Debt Service increased. Public Safety increased by \$35,736, Culture and Recreation activity increased by \$331,851, General Government increased by \$1,696,569, Debt Service increased by \$1,186,719 and Public Works decreased by \$744,575.

The City's total cash basis net assets for Governmental Activities increased by \$2,983,402. Urban Renewal Tax Increment increased \$137,500. The Employee Benefits Fund had an increase of \$84,318. The Road Use Fund showed a decrease of \$683. The Road Use Fund continues to receive some financial assistance, as does the Sewer Fund, due to the passage of the Local Option Sales Tax, which enabled the City to finance street and sewer repair projects. Local Option Sales Tax collections amounted to \$932,089. Anticipated Local Option Sales Tax Receipts for the following 12 months are estimated to be \$850,000. One-half of the total receipts for the Local Option Sales Tax are used for property tax relief and the remaining amounts fund street and sewer improvement projects. Other Non-Major Governmental Funds increased by \$454,379.

Using This Annual Report

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

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

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

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

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

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

Basis of Accounting

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

Reporting the City as a Whole

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

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

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

Fund Financial Statements

The fund financial statements begin on page 13 and provide detailed information about individual significant funds; not the City as a whole. Some funds are established by State law and by bond covenants. The City can establish other funds to help it control and manage money for particular purposes.

The City has two kinds of funds:

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

Government-Wide Financial Analysis

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

Government Activities

The City's cash balance for governmental activities increased from a year ago, by \$2,983,402. The analysis below focuses on this change in cash balance and changes in receipts and disbursements from the prior year.

Change in Cash Balance of Governmental Activities

	<u>2012</u>	<u>2011</u>
Receipts and transfers:		
Program receipts:		
Charges for services and sales	\$ 860,138	\$ 784,966
Intergovernmental revenues	2,985,951	1,823,211
General receipts:		
Property tax	2,357,629	2,237,733
Tax incremental financing collections	845,542	982,107
Other city tax	1,054,234	967,832
Licenses and permits	33,316	85,868
Use of money and property	159,502	137,851
Special assessments	6,560	4,673
Bond and short term debt proceeds	3,471,905	1,277,526
Other general receipts	1,298,090	869,589
Transfers-in	<u>2,026,105</u>	<u>1,648,189</u>
 Total receipts and transfers	 <u>\$15,098,972</u>	 <u>\$10,819,545</u>
 Disbursements:		
Public safety	\$ 1,450,238	\$ 1,414,502
Public works	2,251,390	2,995,965
Health and social services	---	---
Culture and recreation	1,029,200	697,349
Community and economic development	37,103	34,537
General government	3,603,438	1,906,869
Debt service	2,257,597	1,070,878
Capital projects	---	406,828
Bonds redeemed, refinanced	---	---
Transfers-out	<u>1,486,604</u>	<u>1,034,620</u>
 Total disbursements and transfers	 <u>\$12,115,570</u>	 <u>\$ 9,561,548</u>
 Increase (decrease) in cash balance	 \$ 2,983,402	 \$ 1,257,997
 Cash balance, beginning of fiscal year	 <u>5,752,941</u>	 <u>4,494,944</u>
 Cash balance, end of fiscal year	 <u>\$ 8,736,343</u>	 <u>\$ 5,752,941</u>

The City's total receipts for governmental activities increased by forty-three percent (43%) or \$3,901,511. The total cost of all programs and services increased by approximately twenty-five percent (25%) or \$2,102,038. The increase in receipts was due to bond proceeds, other city taxes, charges for services and intergovernmental. The increase in expenditures was due to general government, debt service, community and economic development and culture and recreation.

The City did not increase the property tax rates for the 2011 fiscal year and for fiscal year 2012. The property tax levy rate for FY2013 was reduced by \$0.33046 per thousand or 2.4%.

The cost of all governmental activities this year was \$12,115,570 compared to \$9,561,548 last year. The General Fund showed an increase of \$362,050 from the previous fiscal year.

Business Type Activities

	<u>2012</u>	<u>2011</u>
Receipts		
Program receipts:		
Charges for services and sales	\$ 1,350,074	\$ 1,361,243
Miscellaneous revenues	565,903	468,777
Bond proceeds	---	421
Transfers-in	<u>50,000</u>	<u>---</u>
Total revenues	<u>\$ 1,965,977</u>	<u>\$ 1,830,441</u>
Disbursements and transfers:		
Personal services	\$ 315,904	\$ 343,581
Services and commodities	1,000,958	322,198
Capital outlay	61,740	280,743
Transfers out	<u>589,501</u>	<u>613,569</u>
Total disbursements and transfers	<u>\$ 1,968,103</u>	<u>\$ 1,560,091</u>
Increase (decrease) in cash balance	\$ (2,126)	\$ 270,350
Cash balance, beginning of fiscal year	<u>1,484,916</u>	<u>1,214,566</u>
Cash balance, end of fiscal year	<u>\$ 1,482,790</u>	<u>\$ 1,484,916</u>

Total business-type activity receipts for the fiscal year were \$1,965,977 compared to \$1,830,441 last fiscal year. The revenue increase was due to increases in intergovernmental. The cash balance decreased by \$2,126.

The City's Individual Major Funds

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

Governmental Funds

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the cash balance in the General Fund was \$1,761,062, an increase of \$362,050.

The Road Use Tax Fund cash balance decreased from \$461,401 to \$460,718, during the fiscal year. The fund decreased because we were able to complete some street repairs that were planned for the year.

The Employee Benefits Fund is a Special Revenue Fund that accounts for revenues received and expenditures paid in support of employee benefits. The types of revenues received are property taxes assessed for the employer contributions for health insurance, FICA, IPERS, and unemployment benefits, in addition to any third party health insurance reimbursements received for major medical claims exceeding the stop loss level established with a third party administrator. Expenditures from the fund include premiums and medical claims paid on behalf of covered employees and the employer contributions for FICA, IPERS, and unemployment benefits. The fund showed a net gain of \$84,318 during the fiscal year. The gain is due to reimbursement from reinsurance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation and long-term debt. The City transferred \$1,059,223 from other funds to make payments for these obligations. The fund showed a gain of \$1,774,311 for the fiscal year just completed and has a fund balance of \$1,812,551, which is mostly money held in escrow from bond refunding.

Proprietary Funds

The cash balance of the Sewer Fund decreased by \$2,126, during the fiscal year. The distribution of Local Option Sales Tax dollars into the Sewer Fund to address the inflow and infiltration order will allow for annual capital improvement projects to continue. I-Jobs funding was also used toward I & I reduction projects.

Budgetary Highlights

In accordance with the Code of Iowa, the City Council annually adopts a budget following the required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures, ie; a required public notice followed by a public hearing. Over the course of the year, the City amended its operating budget two times. The amendments were approved on March 20, 2012 and May 29, 2012 and resulted in an increase in operating disbursements related to a budget overrun of \$2,907,107 in various departmental budgets due primarily to sewer repair projects, Cottonwood Road, engineering cost, grant expense, debt service and repairs of property from tornado damage. The amendment also included a projected increase in revenues of \$5,314,582 primarily consisting of receipt of grant pass through for Water Works, reimbursements, lost tax, miscellaneous revenue and grants. Even with the amendment, the City exceeded the budget in debt service.

Debt Administration

At year-end, the City had approximately \$8,851,307 in bonds and other long-term debt compared to \$7,293,424 prior year as shown below.

Outstanding Debt at Year End

	<u>2012</u>	<u>2011</u>
Refunding bond – GO bonds callable in June 1, 2008	\$ ---	\$1,315,000
General Obligation Capital Loan Note, Series 2008	1,715,000	1,930,000
General Obligation Capital Loan Note, Series 2010	1,195,000	1,280,000
General Obligation Capital Loan Note, Series 2012A	1,720,000	---
General Obligation Refunding Capital Loan Notes, Series 2012B	1,815,000	---
State Revolving Fund Wastewater Bonds	2,133,000	2,408,000
Sewer Jet Truck	141,216	188,287
Street Department Trucks	<u>132,091</u>	<u>172,137</u>
Total	<u>\$8,851,307</u>	<u>\$7,293,424</u>

The City didn't levy a Debt Service tax for the fiscal year ending June 30, 2012.

The City's general obligation bond rating continues to be strong. Standard & Poor's Rating Services assigned its "A+" rating to the Series 2012 A General Obligation Capital Loan Note and Series 2012 B General Obligation Refunding Capital Loan Note. The outlook is stable. The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to five percent (5%) of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$6,445,000 is well below the City's \$15,539,236 legal debt limit.

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

Economic Factors and Next Year's Budget and Rates

The City's elected and appointed officials and citizens considered many factors when setting the 2013 fiscal year budget, tax rates, and fees that will be charged for various City activities. In addition, return on investments, fuel costs, and the costs of employee benefits are primary concerns in setting a budget.

These factors all contributed when adopting the fiscal year 2013 budget. Amounts available for appropriations in the budget are \$14,055,441. This amount includes all Business Type Activities, including the Sewer and Water Department expenditures. Steps implemented by the City, including the careful utilization of Local Option Sales Tax receipts, increasing certain fees, transferring costs across funds, and reducing the costs of the delivery of services allowed the City to maintain fund balances in the fiscal year 2012 budget. The property tax rate of \$13.52209 for the fiscal year ending June 30, 2013, is a decrease of \$0.33046 over the previous fiscal year.

Contacting the City's Financial Management

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

CITY OF CRESTON, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the Year Ended June 30, 2012

Exhibit A

FUNCTIONS/PROGRAMS:	<u>Disbursements</u>	PROGRAM RECEIPTS		
		<u>Charges For Services</u>	<u>Operating Grants Contributions, and Restricted Interest</u>	<u>Capital Grants Contributions and Restricted Interest</u>
Governmental activities:				
Public safety	\$ 1,450,238	\$ 201,075	\$ 10,644	\$ -
Public works	2,251,390	787,876	872,207	228,020
Health and social services	-	-	-	-
Culture and recreation	1,029,200	129,280	116,777	-
Community/economic development	37,103	-	-	-
General government	3,603,438	674,360	1,437,504	-
Debt service	2,257,597	-	-	-
Capital projects	-	-	-	-
Total governmental activities	<u>\$ 10,628,966</u>	<u>\$ 1,792,591</u>	<u>\$ 2,437,132</u>	<u>\$ 228,020</u>
Business type activities:				
Sewer	\$ 1,378,602	\$ 1,350,074	\$ -	\$ 563,230
Total business type activities	<u>\$ 1,378,602</u>	<u>\$ 1,350,074</u>	<u>\$ -</u>	<u>\$ 563,230</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 12,007,568</u>	<u>\$ 3,142,665</u>	<u>\$ 2,437,132</u>	<u>\$ 791,250</u>
COMPONENT UNIT:				
Water Works	<u>\$ 6,804,208</u>	<u>\$ 4,332,513</u>	<u>\$ -</u>	<u>\$ 2,738,080</u>
GENERAL RECEIPTS:				
Property taxes levied for:				
General purposes				
Tax incremental financing				
Debt service				
Hotel/motel sales tax				
Local option sales tax				
Grants and contributions not restricted				
Interest on investments				
Bond/note proceeds				
Miscellaneous				
Sale of assets				
Transfers				
TOTAL GENERAL RECEIPTS				
CHANGE IN CASH BASIS NET ASSETS				
CASH BASIS NET ASSETS, BEGINNING OF YEAR				
CASH BASIS NET ASSETS, END OF YEAR				
CASH BASIS NET ASSETS:				
Restricted				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
TOTAL CASH BASIS NET ASSETS				

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

NET (DISBURSEMENTS) RECEIPTS AND CHANGES

Governmental Activities	Business Type Activities	Total	Component Unit Water Works
\$ (1,238,519)	\$ -	\$ (1,238,519)	\$ -
(363,287)	-	(363,287)	-
-	-	-	-
(783,143)	-	(783,143)	-
(37,103)	-	(37,103)	-
(1,491,574)	-	(1,491,574)	-
(2,257,597)	-	(2,257,597)	-
-	-	-	-
<u>\$ (6,171,223)</u>	<u>\$ -</u>	<u>\$ (6,171,223)</u>	<u>\$ -</u>
\$ -	\$ 534,702	\$ 534,702	\$ -
\$ -	\$ 534,702	\$ 534,702	\$ -
<u>\$ (6,171,223)</u>	<u>\$ 534,702</u>	<u>\$ (5,636,521)</u>	<u>\$ -</u>
			<u>\$ 266,385</u>
\$ 2,364,189	\$ -	\$ 2,364,189	\$ -
845,542	-	845,542	-
-	-	-	-
122,145	-	122,145	-
932,089	-	932,089	-
10,435	-	10,435	-
59,745	-	59,745	10,093
3,471,905	-	3,471,905	-
743,935	2,253	746,188	124,990
65,139	420	65,559	-
539,501	(539,501)	-	-
<u>\$ 9,154,625</u>	<u>\$ (536,828)</u>	<u>\$ 8,617,797</u>	<u>\$ 135,083</u>
\$ 2,983,402	\$ (2,126)	\$ 2,981,276	\$ 401,468
5,752,941	1,484,916	7,237,857	1,642,393
<u>\$ 8,736,343</u>	<u>\$ 1,482,790</u>	<u>\$ 10,219,133</u>	<u>\$ 2,043,861</u>
\$ 244,140	\$ -	\$ 244,140	
460,718	-	460,718	
882,440	-	882,440	
1,812,551	128,189	1,940,740	
3,575,432	1,050,594	4,626,026	
1,761,062	304,007	2,065,069	
<u>\$ 8,736,343</u>	<u>\$ 1,482,790</u>	<u>\$ 10,219,133</u>	

CITY OF CRESTON, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2012

Exhibit B

	SPECIAL REVENUE		
	General	Road Use Tax	Employee Benefits
RECEIPTS:			
Property taxes	\$ 1,725,896	\$ -	\$ 448,341
Tax increment financing collections	-	-	-
Other city taxes	122,145	-	-
Licenses and permits	33,316	-	-
Use of money and property	153,749	1,115	-
Intergovernmental	1,999,773	743,064	243,114
Charges for service	848,343	11,795	-
Special assessments	6,560	-	-
Miscellaneous	752,956	9,470	420,936
Total receipts	\$ 5,642,738	\$ 765,444	\$1,112,391
DISBURSEMENTS:			
Operating:			
Public safety	\$ 1,267,841	\$ -	\$ -
Public works	1,185,308	1,066,082	-
Health and social services	-	-	-
Culture and recreation	845,998	-	-
Community/economic development	37,103	-	-
General government	2,373,184	-	1,230,254
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	\$ 5,709,434	\$ 1,066,082	\$1,230,254
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ (66,696)	\$ (300,638)	\$ (117,863)
OTHER FINANCING SOURCES (USES):			
Bond proceeds	\$ -	\$ -	\$ -
Operating transfers in	446,746	299,955	202,181
Operating transfers out	(18,000)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ 428,746	\$ 299,955	\$ 202,181
NET CHANGE IN CASH BALANCES	\$ 362,050	\$ (683)	\$ 84,318
CASH BALANCES, BEGINNING OF YEAR	1,399,012	461,401	362,091
CASH BALANCES, END OF YEAR	\$ 1,761,062	\$ 460,718	\$ 446,409

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

SPECIAL REVENUE			Other	
Urban Renewal Tax Increment	Local Option Sales Tax	Debt Service	Nonmajor Governmental Funds	Total
\$ -	\$ -	\$ -	\$ 183,392	\$ 2,357,629
845,542	-	-	-	845,542
-	932,089	-	-	1,054,234
-	-	-	-	33,316
-	-	780	3,858	159,502
-	-	-	-	2,985,951
-	-	-	-	860,138
-	-	-	-	6,560
-	-	-	114,728	1,298,090
<u>\$ 845,542</u>	<u>\$ 932,089</u>	<u>\$ 780</u>	<u>\$ 301,978</u>	<u>\$ 9,600,962</u>
\$ -	\$ -	\$ -	\$ 182,397	\$ 1,450,238
-	-	-	-	2,251,390
-	-	-	-	-
-	-	-	183,202	1,029,200
-	-	-	-	37,103
-	-	-	-	3,603,438
-	-	2,257,597	-	2,257,597
-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,257,597</u>	<u>\$ 365,599</u>	<u>\$10,628,966</u>
<u>\$ 845,542</u>	<u>\$ 932,089</u>	<u>\$ (2,256,817)</u>	<u>\$ (63,621)</u>	<u>\$ (1,028,004)</u>
\$ -	\$ -	\$ 2,971,905	\$ 500,000	\$ 3,471,905
-	-	1,059,223	18,000	2,026,105
(708,042)	(760,562)	-	-	(1,486,604)
<u>\$ (708,042)</u>	<u>\$ (760,562)</u>	<u>\$ 4,031,128</u>	<u>\$ 518,000</u>	<u>\$ 4,011,406</u>
\$ 137,500	\$ 171,527	\$ 1,774,311	\$ 454,379	\$ 2,983,402
744,940	1,863,931	38,240	883,326	5,752,941
<u>\$ 882,440</u>	<u>\$ 2,035,458</u>	<u>\$ 1,812,551</u>	<u>\$ 1,337,705</u>	<u>\$ 8,736,343</u>

CITY OF CRESTON, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2012

Exhibit B

	SPECIAL REVENUE		
General	Road Use Tax	Employee Benefits	
CASH BASIS FUND BALANCES:			
Nonspendable:			
Cemetery perpetual care	\$ -	\$ -	\$ -
Cemetery perpetual decoration	-	-	-
Restricted for:			
Urban renewal purposes	-	-	-
Debt service	-	-	-
Street	-	460,718	-
Other purposes	-	-	446,409
Committed:			
Community Center	351,239	-	-
Assigned:			
Library infrastructure	1,743	-	-
Equipment acquisition	7,000	-	-
Unassigned	1,401,080	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 1,761,062	\$ 460,718	\$ 446,409

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

<u>SPECIAL REVENUE</u>			Other	
<u>Urban</u>	<u>Local</u>	<u>Debt</u>	<u>Nonmajor</u>	
<u>Renewal Tax</u>	<u>Option</u>	<u>Service</u>	<u>Governmental</u>	<u>Total</u>
<u>Increment</u>	<u>Sales Tax</u>		<u>Funds</u>	
\$ -	\$ -	\$ -	\$ 221,354	\$ 221,354
-	-	-	22,786	22,786
882,440	-	-	-	882,440
-	-	1,812,551	-	1,812,551
-	-	-	-	460,718
-	2,035,458	-	1,093,565	3,575,432
-	-	-	-	351,239
-	-	-	-	1,743
-	-	-	-	7,000
-	-	-	-	1,401,080
<u>\$ 882,440</u>	<u>\$ 2,035,458</u>	<u>\$ 1,812,551</u>	<u>\$ 1,337,705</u>	<u>\$ 8,736,343</u>

CITY OF CRESTON, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUND

As of and for the Year Ended June 30, 2012

	Exhibit C Enterprise Fund <u>Sewer</u>
OPERATING RECEIPTS:	
Charge for service	\$ 1,350,074
Total operating receipts	<u>\$ 1,350,074</u>
OPERATING DISBURSEMENTS:	
Business type activities	\$ 1,378,602
Total operating disbursements	<u>\$ 1,378,602</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>\$ (28,528)</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):	
Intergovernmental	\$ 563,230
Uses of money and property	420
Miscellaneous	2,253
Total non-operating receipts (disbursements)	<u>\$ 565,903</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>\$ 537,375</u>
OTHER FINANCING SOURCES (USES):	
Bond proceeds	\$ -
Operating transfers in	50,000
Operating transfers out	(589,501)
Total other financing sources (uses)	<u>\$ (539,501)</u>
NET CHANGE IN CASH BALANCES	\$ (2,126)
CASH BALANCES, BEGINNING OF YEAR	<u>1,484,916</u>
CASH BALANCES, END OF YEAR	<u><u>\$ 1,482,790</u></u>
CASH BASIS FUND BALANCES:	
Reserved for debt service	\$ 128,189
Reserved for capital replacement	867,826
Reserved for storm water	182,768
Unreserved	304,007
Total cash basis fund balances	<u><u>\$ 1,482,790</u></u>

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

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies

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

Reporting Entity

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

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

Discretely Presented Component Unit

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

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Presentation

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

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

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

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.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

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

The City reports the following major governmental funds:

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (continued)

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

Special Revenue:

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

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

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

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

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

The City reports the following major proprietary fund:

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

Measurement Focus and Basis of Accounting

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

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

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (continued)

Governmental Cash Basis Fund Balances:

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

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

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.

Committed – Amounts the Council has legally limited for specific purposes.

Assigned – Amounts the 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. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the Debt Service function after amendments.

Note 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 and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 2. Deposits and Investments (continued)

The City's investments are normally categorized to give an indication of the level of risk assumed by the City at year end. However, at June 30, 2012, the City had no investments subject to risk categorization.

Note 3. Bonds Payable and Other Debt

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

Year Ending June 30,	Obligation Capital Loan Notes	Other Debt	Total
2013	\$ 760,000	\$ 376,047	\$ 1,136,047
2014	770,000	391,070	1,161,070
2015	775,000	407,190	1,182,190
2016	795,000	264,000	1,059,000
2017	810,000	276,000	1,086,000
2018-2022	2,405,000	294,000	2,699,000
2023-2027	130,000	276,000	406,000
2028-2030	-	122,000	122,000
	<u>\$ 6,445,000</u>	<u>\$ 2,406,307</u>	<u>\$ 8,851,307</u>

Interest			
Year Ending June 30,	General Obligation Capital Loan Notes	Other Debt	Total
2013	\$ 146,257	\$ 76,726	\$ 222,983
2014	129,906	63,970	193,876
2015	116,503	50,726	167,229
2016	101,698	38,960	140,658
2017	85,073	29,040	114,113
2018-2022	170,905	83,010	253,915
2023-2027	4,940	43,680	48,620
2028-2030	-	5,520	5,520
	<u>\$ 755,282</u>	<u>\$ 391,632</u>	<u>\$ 1,146,914</u>

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 3. Bonds Payable and Other Debt (continued)

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

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

- (a) All taxes collected under levy shall be converted into a special fund in the Debt Service Fund.
- (b) Fund monies are to be used for payment of principal and interest of the bonds only.
- (c) All proceeds are to be invested in either direct obligations of the U.S. Government or deposited in banks which are members of the FDIC in FDIC insured accounts.
- (d) No use of bond or note proceeds is allowed which will cause them to be classified as arbitrage bonds or notes.
- (e) Project has not been and is not expected to be sold or disposed of prior to bond or note maturity.
- (f) Tax levies of adequate amount are ordered for bond and note repayments.

Other Debt

On November 7, 1995, the City entered into a note agreement with a financial institution for a State Revolving Funds Loan to finance the construction of a sludge lagoon. The total loan award was for \$810,000. The balance at June 30, 2012 is \$172,000. The loan bears interest at 3% and interest payments are due June 1 and December 1. Principal payments are due June 1.

On June 10, 1997, the City entered into a note agreement with a financial institution for a second State Revolving Funds Loan for additional financing of construction of the sludge lagoon and wastewater treatment plant improvements. The total loan award was for \$2,383,000. The balance at June 30, 2012, is \$806,000. The loan bears interest at 3% and interest payments are due June 1 and December 1. Principal payments are due June 1.

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 3. Bonds Payable and Other Debt (continued)

On March 20, 1998, the City entered into a note agreement with a financial institution for a third State Revolving Funds Loan for additional financing of construction of wastewater treatment plant improvements. The total loan award was for \$829,000. The balance at June 30, 2012, is \$323,000. The loan bears interest at 3% and interest payments are due June 1 and December 1. Principal payments are due June 1.

On September 30, 2009, the City entered into a note agreement with a financial institution for a fourth State Revolving Funds Loan for additional financing of construction of sanitary sewer line improvements. The total loan award was for \$945,000. The balance at June 30, 2012, is \$832,000. The loan bears interest at 3% and interest payments are due June 1 and December 1. Principal payments are due June 1.

On November 4, 2008, the City entered into a note agreement with a financial institution for financing the cost of a new sewer jet truck at a cost of \$329,500 at 4.45% interest. Interest payments are due June 1 and December 1. Principal payments are due June 1 beginning June 1, 2009. The balance at June 30, 2012 is \$141,216.

On April 27, 2010, the City entered into a note agreement with a financial institution for financing the cost of a new street dump trucks at a cost of \$210,342 at 4.80% interest. Interest payments and principal payments are due April 1 beginning April 1, 2011. The balance at June 30, 2012 is \$132,091.

Note 4. Pension and Retirement Benefits

MFPRSI

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

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 4. Pension and Retirement Benefit (continued)

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, cannot be less than 17% of earnable compensation. Contribution requirements are established by State statute. The City's contribution to the Plan for the years ended June 30, 2012, 2011, and 2010 was \$181,538, \$204,703, and \$177,928 respectively, which met the required minimum contribution for each year.

IPERS

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

Plan members are required to contribute 5.38% of their annual 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 contribution to IPERS for the year ended June 30, 2012, 2011, and 2010 was \$90,844, \$77,624, and \$72,138 respectively, equal to the required contribution for each year.

Note 5. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. They also accumulate a limited amount of sick leave hours which are available for subsequent use only. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 180,112
Sick leave	<u>543,754</u>
Total	<u>\$ 723,866</u>

This liability has been computed based on rates of pay as of June 30, 2012.

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 6. Related Party Transactions

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

The Water Works determines fees charged to users and also charges the City for usage. The Water Works collects sewage and garbage fees for the City of Creston. Funds collected are remitted to the City monthly. The City received \$1,301,431 for sewer rental and \$612,063 for garbage collections from the Water Works for the year ended June 30, 2012. The City paid the Water Works \$10,343 for utilities.

The City of Creston and the Creston City Water Works are covered under the same insurance policy. Each year the City pays the total policy premium and the Water Works reimburses the City for its share of the cost. During the year ended June 30, 2012, the Water Works reimbursed the City \$73,823.

As of June 30, 2012, the Water Works owes the following to the City of Creston:

Sewer rental	\$ 104,138
Garbage collections	<u>50,530</u>
	<u>\$ 154,668</u>

The City provides health insurance for employees of both the City and the Water Works under its self-funded health insurance plan. For the year ended June 30, 2012, the City was reimbursed \$199,211 from the Water Works for claims and premiums paid on behalf of the Water Works employees.

Note 7. Risk Management

The City of Creston is exposed to various risks of loss related to torts; theft, damage to and destruction of assets, errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks did not exceed commercial insurance coverage during the year ended June 30, 2012.

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 8. Commitments

Garbage Collection

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

Airport Operations

The City has entered into an agreement with a contractor to operate and maintain the Creston Municipal Airport for the fiscal year ending June 30, 2013, for \$35,000. The contractor is responsible for all maintenance, upkeep and repairs of the airport and has the option of operating as a fixed based operator. The City is responsible for providing for utilities for the runway lighting, taxiing, lighted windsock, rotating light beacon, and radio homing beacon and for all parts and repairs necessary for these items. The agreement is for a period of one year.

Self-Funded Health Insurance

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

Environmental Insurance

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

Note 9. Jointly Governed Organizations

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

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

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 10. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special revenue:	
	Urban renewal tax increment	\$ 99,989
	Local option sales tax	160,086
	Enterprise:	
	Sewer	<u>186,671</u>
		<u>\$ 446,746</u>
Debt service	Special revenue:	
	Urban renewal tax increment	\$ 608,053
	Local option sales tax	48,340
	Enterprise:	
	Sewer	<u>402,830</u>
		<u>\$1,059,223</u>
Special revenue: Employee benefits	Special revenue: Local option sales tax	<u>\$ 202,181</u>
McKinley Park	General	<u>\$ 18,000</u>
Road Use	Special revenue: Local option sales tax	<u>\$ 299,955</u>
Business type: Sewer	Special revenue: Local option sales tax	<u>\$ 50,000</u>
Total		<u>\$2,076,105</u>

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

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 11. Operating Lease

The City has entered into an operating lease with a company for copier equipment for the City. The lease is for 60 months beginning on September 6, 2011. Minimum future lease payments are as follows:

Year ending <u>June 30,</u>	
2013	\$ 2,467
2014	2,467
2015	2,467
2016	2,467
2017	652

Note 12. Litigation

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

Note 13. Impairment of Assets

During April 2012 a portion of the City was damaged by a tornado. As a result, the YMCA Building, which is owned by the City, received significant damage from the tornado, both to the interior and exterior of the building. As of June 30, 2012, the building was not in a usable condition for the City. Repairs were underway to restore the facility to a usable condition. Most of the cost of the repairs will be covered by the City's insurance.

Note 14. Subsequent Events

In July, 2012, the City received notification of award of a grant in the amount of \$469,800 for financial assistance for the construction of entrance road improvements at the City airport.

In July, 2012, the City approved the purchase of a new Pierce Fire Engine for approximately \$506,000.

Management has evaluated subsequent events through August 24, 2011, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CRESTON, IOWA
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN BALANCES - ACTUAL TO BUDGET (CASH BASIS) -
 ALL GOVERNMENTAL AND PROPRIETARY FUNDS
 Year Ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Net
RECEIPTS:			
Property tax	\$ 2,357,629	\$ -	\$ 2,357,629
Tax increment financing collections	845,542	-	845,542
Other city tax	1,054,234	-	1,054,234
Licenses and permits	33,316	-	33,316
Use of money and property	159,502	420	159,922
Intergovernmental	2,985,951	563,230	3,549,181
Charges for service	860,138	1,350,074	2,210,212
Special assessments	6,560	-	6,560
Miscellaneous	1,298,090	2,253	1,300,343
TOTAL RECEIPTS	\$ 9,600,962	\$ 1,915,977	\$ 11,516,939
DISBURSEMENTS:			
Public safety	\$ 1,450,238	\$ -	\$ 1,450,238
Public works	2,251,390	-	2,251,390
Health and social services	-	-	-
Culture and recreation	1,029,200	-	1,029,200
Community and economic development	37,103	-	37,103
General government	3,603,438	-	3,603,438
Debt service	2,257,597	-	2,257,597
Capital projects	-	-	-
Business type activities	-	1,378,602	1,378,602
TOTAL DISBURSEMENTS	\$ 10,628,966	\$ 1,378,602	\$ 12,007,568
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ (1,028,004)	\$ 537,375	\$ (490,629)
OTHER FINANCING SOURCES (USES), NET	4,011,406	(539,501)	3,471,905
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	\$ 2,983,402	\$ (2,126)	\$ 2,981,276
BALANCE, BEGINNING OF YEAR	5,752,941	1,484,916	7,237,857
BALANCE, END OF YEAR	\$ 8,736,343	\$ 1,482,790	\$ 10,219,133

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net
		Variance
\$ 2,198,939	\$ 2,274,010	\$ 83,619
841,784	841,784	3,758
946,312	1,111,312	(57,078)
34,000	34,000	(684)
82,735	82,735	77,187
2,701,175	3,638,201	(89,020)
2,190,858	2,247,898	(37,686)
-	-	6,560
222,900	933,629	366,714
<u>\$ 9,218,703</u>	<u>\$ 11,163,569</u>	<u>\$ 353,370</u>
\$ 1,462,604	\$ 1,490,344	\$ 40,106
2,202,011	2,427,511	176,121
-	-	-
711,773	1,220,956	191,756
77,740	77,740	40,637
2,890,014	4,012,528	409,090
1,060,523	2,230,523	(27,074)
4,936	4,936	4,936
1,556,451	1,556,451	177,849
<u>\$ 9,966,052</u>	<u>\$ 13,020,989</u>	<u>\$ 1,013,421</u>
\$ (747,349)	\$ (1,857,420)	\$ 1,366,791
-	3,517,546	(45,641)
\$ (747,349)	\$ 1,660,126	<u>\$ 1,321,150</u>
8,628,445	8,880,249	
<u>\$ 7,881,096</u>	<u>\$ 10,540,375</u>	

CITY OF CRESTON, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2012

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$3,054,937. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the Debt Service function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF CRESTON, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2012

Schedule 1

	Special Revenue		
	Police and Fire Retirement	Police Forfeiture	McKinley Park
RECEIPTS:			
Property tax	\$ 183,392	\$ -	\$ -
Tax increment financing collections	-	-	-
Other city tax	-	-	-
Licenses and permits	-	-	-
Uses of money and property	-	-	-
Intergovernmental	-	-	-
Charges for services	-	-	-
Special assessments	-	-	-
Miscellaneous	-	2,500	78,659
TOTAL RECEIPTS	\$ 183,392	\$ 2,500	\$ 78,659
DISBURSEMENTS:			
Operating:			
Public safety	\$ 181,538	\$ 859	\$ -
Public works	-	-	-
Health and social services	-	-	-
Culture and recreation	-	-	73,103
Community and economic development	-	-	-
General government	-	-	-
Debt service	-	-	-
Capital projects	-	-	-
TOTAL DISBURSEMENTS	\$ 181,538	\$ 859	\$ 73,103
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ 1,854	\$ 1,641	\$ 5,556
OTHER FINANCING SOURCES (USES):			
Bond proceeds	\$ -	\$ -	\$ -
Operating transfers in	-	-	18,000
Operating transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ -	\$ -	\$ 18,000

See accompanying independent auditor's report.

<u>Special Revenue</u>		<u>Permanent</u>			
<u>Library Building</u>	<u>Capital Projects</u>	<u>Cemetery Perpetual Care</u>	<u>Cemetery Perpetual Decoration</u>	<u>Total</u>	
\$ -	\$ -	\$ -	\$ -	\$ 183,392	
-	-	-	-	-	
-	-	-	-	-	
-	-	-	-	-	
3,858	-	-	-	3,858	
-	-	-	-	-	
-	-	-	-	-	
-	-	-	-	-	
30,209	-	3,360	-	114,728	
<u>\$ 34,067</u>	<u>\$ -</u>	<u>\$ 3,360</u>	<u>\$ -</u>	<u>\$ 301,978</u>	
\$ -	\$ -	\$ -	\$ -	\$ 182,397	
-	-	-	-	-	
-	-	-	-	-	
110,099	-	-	-	183,202	
-	-	-	-	-	
-	-	-	-	-	
-	-	-	-	-	
<u>\$ 110,099</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 365,599</u>	
<u>\$ (76,032)</u>	<u>\$ -</u>	<u>\$ 3,360</u>	<u>\$ -</u>	<u>\$ (63,621)</u>	
\$ -	\$ 500,000	\$ -	\$ -	\$ 500,000	
-	-	-	-	18,000	
-	-	-	-	-	
<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 518,000</u>	

CITY OF CRESTON, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2012

Schedule 1

	Special Revenue		
	Police and Fire Retirement	Police Forfeiture	McKinley Park
NET CHANGE IN CASH BALANCE	\$ 1,854	\$ 1,641	\$ 23,556
CASH BALANCES, BEGINNING OF YEAR	116,479	2,523	173,518
CASH BALANCES, END OF YEAR	\$ 118,333	\$ 4,164	\$ 197,074
CASH BASIS FUND BALANCES:			
Nonspendable:			
Cemetery perpetual care	\$ -	\$ -	\$ -
Cemetery perpetual decoration	-	-	-
Restricted for:			
Other purposes	118,333	4,164	197,074
TOTAL CASH BASIS FUND BALANCES	\$ 118,333	\$ 4,164	\$ 197,074

See accompanying independent auditor's report.

<u>Special Revenue</u>		<u>Permanent</u>		
<u>Library Building</u>	<u>Capital Projects</u>	<u>Cemetery Perpetual Care</u>	<u>Cemetery Perpetual Decoration</u>	<u>Total</u>
\$ (76,032)	\$ 500,000	\$ 3,360	\$ -	\$ 454,379
<u>350,026</u>	<u>-</u>	<u>217,994</u>	<u>22,786</u>	<u>883,326</u>
<u>\$ 273,994</u>	<u>\$ 500,000</u>	<u>\$ 221,354</u>	<u>\$ 22,786</u>	<u>\$1,337,705</u>
\$ -	\$ -	\$ 221,354	\$ -	\$ 221,354
-	-	-	22,786	22,786
<u>273,994</u>	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>1,093,565</u>
<u>\$ 273,994</u>	<u>\$ 500,000</u>	<u>\$ 221,354</u>	<u>\$ 22,786</u>	<u>\$1,337,705</u>

CITY OF CRESTON, IOWA
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2012

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>
Schedule 2			
General obligation capital loan notes:			
Refunding notes	August 15, 2005	3.25-4.20%	1,720,000
General corporate purpose	March 25, 2008	2.40-3.85%	2,530,000
General corporate purpose	July 22, 2010	3.55-3.80%	1,280,000
General corporate purpose	April 24, 2012	.5-2.30%	1,720,000
General corporate purpose	April 24, 2012	.50-1.60%	1,815,000
Total			
Other debt:			
State Revolving Funds Loan	Nov. 7, 1995	3.00%	810,000
State Revolving Funds Loan	June 10, 1997	3.00%	2,383,000
State Revolving Funds Loan	March 20, 1998	3.00%	827,000
State Revolving Funds Loan	September 30, 2009	3.00%	945,000
Sewer truck	November 4, 2008	4.45%	329,500
Street trucks	April 27, 2010	4.80%	210,342
Total			

See accompanying independent auditor's report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 1,315,000	\$ -	\$ 1,315,000	\$ -	\$ 51,100	\$ -
1,930,000	-	215,000	1,715,000	66,283	-
1,280,000	-	85,000	1,195,000	45,670	-
-	1,720,000	-	1,720,000	-	-
-	1,815,000	-	1,815,000	-	-
<u>\$ 4,525,000</u>	<u>\$ 3,535,000</u>	<u>\$ 1,615,000</u>	<u>\$ 6,445,000</u>	<u>\$ 163,053</u>	<u>\$ -</u>
\$ 224,000	\$ -	\$ 52,000	\$ 172,000	\$ 6,720	\$ -
947,000	-	141,000	806,000	28,410	-
369,000	-	46,000	323,000	11,070	-
868,000	-	36,000	832,000	26,040	-
188,287	-	47,071	141,216	8,518	-
172,137	-	40,046	132,091	8,294	-
<u>\$ 2,768,424</u>	<u>\$ -</u>	<u>\$ 362,117</u>	<u>\$ 2,406,307</u>	<u>\$ 89,052</u>	<u>\$ -</u>

CITY OF CRESTON, IOWA
 BOND AND OTHER DEBT MATURITIES
 JUNE 30, 2012

Schedule 3

Year Ending June 30,	General Obligation Capital Loan Notes					
	General Purpose Issued March 25, 2008		General Purpose Issued July 22, 2010		General Purpose Issued April 24, 2012	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2013	3.05	\$ 225,000	3.55	\$ 90,000	0.50	\$ 180,000
2014	3.20	230,000	3.55	95,000	0.60	190,000
2015	3.35	235,000	3.55	95,000	0.80	190,000
2016	3.50	245,000	3.55	100,000	1.00	195,000
2017	3.65	250,000	3.60	105,000	1.20	195,000
2018	3.75	260,000	3.60	110,000	1.35	195,000
2019	3.85	270,000	3.30	110,000	1.60	195,000
2020	-	-	3.45	115,000	1.75	125,000
2021	-	-	3.55	120,000	2.00	125,000
2022	-	-	3.70	125,000	2.30	130,000
2023	-	-	3.80	130,000	-	-
Total		\$ 1,715,000		\$ 1,195,000		\$ 1,720,000

See accompanying independent auditor's report.

General Obligation Capital Loan Notes General Purpose Issued April 24, 2012	
Interest Rates	Amount
0.50	\$ 265,000
0.60	255,000
0.80	255,000
1.00	255,000
1.20	260,000
1.35	260,000
1.60	265,000
-	-
-	-
-	-
-	-
	<u>\$ 1,815,000</u>

Total General Obligation Capital Loan Notes
\$ 760,000
770,000
775,000
795,000
810,000
825,000
840,000
240,000
245,000
255,000
130,000
<u>\$ 6,445,000</u>

Other Debt State Revolving Funds Loan Dated March 20, 1998	
Interest Rates	Amount
3.00	\$ 48,000
3.00	50,000
3.00	53,000
3.00	55,000
3.00	57,000
3.00	60,000
-	-
-	-
-	-
-	-
	<u>\$ 323,000</u>

CITY OF CRESTON, IOWA
 BOND AND OTHER DEBT MATURITIES
 JUNE 30, 2012

Schedule 3
 (continued)

Ending June 30,	Other Debt					
	State Revolving Funds Loan Dated November 7, 1995		State Revolving Funds Loan Dated June 10, 1997		State Revolving Funds Loan Dated September 30, 2009	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2013	3.00	\$ 55,000	3.00	\$ 147,000	3.00	\$ 37,000
2014	3.00	57,000	3.00	154,000	3.00	39,000
2015	3.00	60,000	3.00	161,000	3.00	40,000
2016	-	-	3.00	168,000	3.00	41,000
2017	-	-	3.00	176,000	3.00	43,000
2018	-	-	-	-	3.00	44,000
2019	-	-	-	-	3.00	45,000
2020	-	-	-	-	3.00	47,000
2021	-	-	-	-	3.00	48,000
2022	-	-	-	-	3.00	50,000
2023	-	-	-	-	3.00	52,000
2024	-	-	-	-	3.00	53,000
2025	-	-	-	-	3.00	55,000
2026	-	-	-	-	3.00	57,000
2027	-	-	-	-	3.00	59,000
2028	-	-	-	-	3.00	60,000
2029	-	-	-	-	3.00	62,000
		<u>\$ 172,000</u>	0	<u>\$ 806,000</u>		<u>\$ 832,000</u>

See accompanying independent auditor's report.

Other Debt

Sewer Truck		Street Trucks		Total
Interest Rates	Amount	Interest Rates	Amount	Other Debt
4.45	\$ 47,072	4.80	\$ 41,975	\$ 376,047
4.45	47,072	4.80	43,998	391,070
4.45	47,072	4.80	46,118	407,190
-	-	-	-	264,000
-	-	-	-	276,000
-	-	-	-	104,000
-	-	-	-	45,000
-	-	-	-	47,000
-	-	-	-	48,000
-	-	-	-	50,000
-	-	-	-	52,000
-	-	-	-	53,000
-	-	-	-	55,000
-	-	-	-	57,000
-	-	-	-	59,000
-	-	-	-	60,000
-	-	-	-	62,000
	<u>\$ 141,216</u>		<u>\$ 132,091</u>	<u>\$ 2,406,307</u>

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

Schedule 4

	2012	2011	2010
RECEIPTS:			
Property tax	\$ 2,357,629	\$ 2,237,733	\$ 2,206,761
Tax incremental financing collections	845,542	982,107	830,465
Other city tax	1,054,234	967,832	995,380
Licenses and permits	33,316	85,868	45,691
Uses of money and property	159,502	137,851	138,544
Intergovernmental	2,985,951	1,823,211	1,964,979
Charges for services	860,138	784,966	731,480
Special assessments	6,560	4,673	6,564
Miscellaneous	1,298,090	869,589	402,807
	<u>\$ 9,600,962</u>	<u>\$ 7,893,830</u>	<u>\$ 7,322,671</u>
TOTAL			
DISBURSEMENTS:			
Operating:			
Public safety	\$ 1,450,238	\$ 1,414,502	\$ 1,291,228
Public works	2,251,390	2,995,965	1,606,899
Health and social services	-	-	-
Culture and recreation	1,029,200	697,349	579,237
Community and economic development	37,103	34,537	34,522
General government	3,603,438	1,906,869	2,288,799
Debt service	2,257,597	1,070,878	1,088,399
Capital projects	-	406,828	118,361
	<u>\$ 10,628,966</u>	<u>\$ 8,526,928</u>	<u>\$ 7,007,445</u>
TOTAL			

See accompanying independent auditor's report.

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 1,834,171	\$ 1,610,447	\$ 1,751,774	\$ 2,347,714	\$2,406,504
570,169	377,466	257,088	123,798	125,512
938,578	930,308	958,901	642,641	90,754
53,262	35,096	84,004	83,496	58,863
220,911	309,648	272,066	178,858	67,787
1,877,398	1,604,264	1,443,949	1,714,568	1,701,605
754,752	728,682	636,366	631,690	636,413
3,202	1,120	1,123	770	768
574,130	405,027	529,052	273,672	255,315
<u>\$ 6,826,573</u>	<u>\$ 6,002,058</u>	<u>\$ 5,934,323</u>	<u>\$ 5,997,207</u>	<u>\$5,343,521</u>
\$ 1,935,678	\$ 1,369,057	\$ 1,329,216	\$ 1,382,540	\$1,284,193
1,710,960	1,550,531	1,424,508	1,242,654	1,376,244
-	-	-	-	-
709,738	1,055,408	574,424	475,808	440,350
45,807	29,577	22,051	36,840	29,966
1,609,437	1,818,139	1,525,619	1,859,588	817,126
1,060,991	1,137,048	748,852	987,032	1,022,485
12,676	39,328	7,016	94,540	397,048
<u>\$ 7,085,287</u>	<u>\$ 6,999,088</u>	<u>\$ 5,631,686</u>	<u>\$ 6,079,002</u>	<u>\$5,367,412</u>

CITY OF CRESTON, IOWA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2012

Schedule 5

<u>Federal grantor/pass-through grant/program name</u>	<u>Federal CFDA Number</u>	<u>Agency Pass-Through Number</u>	<u>Total Federal Expenditures</u>
United States Department of Federal Aviation:			
Airport Improvements Grants			
Snow removal equipment storage building	20.106		\$ 228,020
Total United States Department of Federal Aviation			
United States Department of Housing and Urban Development:			
Iowa Department of Economic Development			
Community Development Block Grant			
Neighborhood stabilization project	14.228	08-NSP-005	\$ 50,649
Water improvement project	14.228	07-WS-021	115,825
Lake improvement project	14.228	08-DRIEF-250	1,093,714
Water improvement project	14.228	08-WS-038	15,247
Water improvement project	14.228	11-WS-015	30,512
Housing project	14.228	09-HSG-022	82,245
Total Iowa Department of Economic Development			
			<u>\$ 1,388,192</u>
Total Federal Expenditures			<u><u>\$ 1,616,212</u></u>

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

CITY OF CRESTON, IOWA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2012

Basis of Presentation

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

See accompanying independent auditor's reports.

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

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

We have audited the financial statements of the government activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Creston, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City of Creston, Iowa's basic financial statements and have issued our report thereon dated September 5, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards generally and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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

Compliance and Other Matters

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

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 and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

Drapen, Smidgrass, Middelton + Co., P.C.

September 5, 2012

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

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

Compliance

We have audited the compliance of City of Creston, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2012. City of Creston, Iowa's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant applicable to each of its major federal programs is the responsibility of the City of Creston, Iowa's management. Our responsibility is to express an opinion on the City of Creston, Iowa's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB-Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Creston, Iowa's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Creston, Iowa's compliance with those requirements.

In our opinion, City of Creston, Iowa, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

Management of City of Creston, Iowa, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Creston Iowa's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Creston, Iowa's internal control over compliance.

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

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-III-A and 2012-III-B to be significant deficiency.

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

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

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

September 5, 2012

CITY OF CRESTON, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

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

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

CITY OF CRESTON, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS

2012-II-A Segregation of duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of the aspects of accounting internal controls which rely on adequate segregation of duties, for all reasonable purposes, are missing in the City.

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

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

Conclusion: Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

PART III: FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

INSTANCES OF NON-COMPLIANCE

None

SIGNIFICANT DEFICIENCIES:

2012-III-A A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of the aspects of accounting internal controls which rely on adequate segregation of duties, for all reasonable purposes, are missing in the city. See audit finding 2012-II-A.

CITY OF CRESTON, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

2012-III-B

Documentation of Expenditures for Grant Reimbursement: The City received a Community Development Block grant for housing rehabilitation within an area of the City. The claims for reimbursement in the City's records did not include any supporting information regarding the expenses being claimed on the request for reimbursement as approved by the City Council for submission. All expenditures to be claimed for reimbursement are to be properly supported at the time of the request. When the reimbursed amount was received, it was paid to the Grant Administrator, who also prepared the claim for reimbursement and also was paying the amounts for the expenditures claimed. The City's policy also requires that all expenditures have the proper supporting documentation prior to approval and payment. Subsequent to the review of this information, the grant administrator did provide the supporting information for the reimbursement requests.

Recommendation: We recommend that any future approvals for grant reimbursement claims be supported with the documentation of the items claimed for reimbursement prior to approval to ensure that the claim is proper and all items are allowed under the grant agreement and that the amount remitted to the grant administrator is also documented and proper.

Response and corrective action planned: Grant reimbursement claims will be reviewed to ensure they are supported with documentation for items claimed for reimbursement prior to approval, to ensure the claims are proper and allowed per the grant agreement and that the amount remitted to the grant administrator is proper and documented.

Conclusion: Response acknowledged.

PART IV. OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

2012-IV-1

Certified Budget: Disbursements during the year ended June 30, 2012, exceeded the amounts budgeted in the Debt Service function after the budget amendment. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

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

Conclusion: Response acknowledged.

CITY OF CRESTON, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Budget Amendment: The City amended the budget for the year ended June 30, 2012, as required by the Code of Iowa, however the publication requirement under Chapter 384.16(3) of the Code requires that the date of publication be not less than 10 days and not more than 20 days prior to the date of the public hearing. The City's notice for the public hearing from the date of publication to the date of the public hearing was only 8 days.

Recommendation: The City should monitor to ensure that the time requirements for publication for public hearings regarding budget amendments is followed as required by the Code of Iowa Chapter 384.16(3).

Response: The City will submit publication notices to ensure the time requirements for publication for public hearings regarding budget amendments is followed as required by the Code of Iowa Chapter 384.16(3).

Conclusion: Response acknowledged.

- 2012-IV-2 Questionable Disbursements: During the audit, we noted no expenditures for parties, banquets or other entertainment for employees or Council members that we believe may constitute an unlawful expenditure of public funds as defined in an Attorney General's opinion dated April 25, 1979.
- 2012-IV-3 Travel Expense: No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.
- 2012-IV-4 Business Transactions: No business transactions between the City and City officials or employees were noted.
- 2012-IV-5 Bond Coverage: Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 2012-IV-6 Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.
- 2012-IV-7 Revenue Bonds: The City does not have revenue bonds, only general obligation bond.
- 2012-IV-8 Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy, except as follows:

CITY OF CRESTON, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Deposit Resolution: While the City did approve a depository resolution as required by Iowa Code Chapter 12C.2, the amount of the deposits at one institution exceeded the maximum approved amount included in the resolution.

Recommendation: The City should monitor the deposits held at the approved institutions to be sure that the approved maximum amounts are not exceeded and approve a new resolution, if needed to comply with the requirements of Chapter 12C.2 of the Code of Iowa.

Response: The City will monitor deposits held at approved institutions to ensure that the maximum amounts are not exceeded and approve a new resolution to modify the amount if needed to comply with Chapter 12C.2 of the Code of Iowa.

Conclusion: Response acknowledged.