

CITY OF CRESTON, IOWA

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

Year Ended June 30, 2013

CITY OF CRESTON, IOWA
TABLE OF CONTENTS

		<u>Page</u>
OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT		2-4
MANAGEMENT'S DISCUSSION AND ANALYSIS		5-12
BASIC FINANCIAL STATEMENTS:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	13
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	14-15
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	16
Notes to Financial Statements		17-28
REQUIRED SUPPLEMENTARY INFORMATION:		
Budgetary Comparison Schedule of Receipts, Disbursement and Changes in Balances – Budget And Actual (Cash Basis) – All Governmental Funds And Proprietary Funds		29
Notes to Required Supplementary Information – Budgetary Reporting		30
OTHER SUPPLEMENTARY INFORMATION:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	31-32
Schedule of Indebtedness	2	33
Bond and Note Maturities	3	34-35
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4	36
Schedule of Expenditures of Federal Awards	5	37
Notes to Schedule of Expenditures of Federal Awards		38
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		39-40
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133		41-42
SCHEDULE OF FINDINGS AND QUESTIONED COSTS		43-45

CITY OF CRESTON, IOWA
CITY OFFICIALS
June 30, 2013

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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
Paul Vandevender	Council Member	January 1, 2014
Loyal Winborn	Council Member	January 1, 2016
Ann Levine	Council Member	January 1, 2014
Marsha Wilson	Council Member	January 1, 2016
Michael Taylor	City Administrator	---
Lisa Williamson	City Clerk	January 1, 2014
Arnold O. Kenyon, III	Co-City Attorney	January 1, 2014
Todd Nielsen	Co-City Attorney	January 1, 2014

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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 Creston, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting as described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the government activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Creston, Iowa, as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-12 and 29-30 presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with U.S. generally accepted auditing standards, which consists of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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 third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards, In our opinion, the combining and individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 19, 2013, on our consideration of the City of Creston, Iowa's internal control over financial reporting and on 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Creston, Iowa's internal control over financial reporting and compliance.

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

September 19, 2013

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, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Financial Highlights

Government Activities total revenues decreased by \$1,005,221 from the previous fiscal year. Property Tax revenue, License and Permits, and Special Assessments all increased from the previous fiscal year. Tax Increment Financing, Other City Taxes, Uses of Money and Property, Intergovernmental, Charges for Service and Miscellaneous revenue all decreased when compared to fiscal year 2012.

Government Activities total expenditures increased by \$802,603. Public Safety, Public Works, Culture and Recreation, Community and Economic Development, Debt Service and Capital Project expenditures all increased compared to fiscal year 2012. General Government expenditures decreased by \$930,227 from the previous fiscal year. Public Safety expenditures increased by \$61,655, Public Works increased by \$216,907, Culture and Recreation increased by \$351,259, Debt Service increased by \$591,433, and Capital Projects increased by \$508,819 compared to fiscal year 2012.

During fiscal year 2013, the City's total cash basis net assets for Governmental Activities decreased by \$2,240,280. Local Option Sales Tax fund balance increased to \$337,134. The Employee Benefits fund had an increase of \$269,040. Other Non-Major Governmental Funds cash balance decreased by \$488,746 in fiscal year 2013. The Road Use Tax Fund showed a decrease of \$176,248. 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 received in fiscal year 2013 were \$893,522. Anticipated Local Option Sales Tax Receipts for fiscal year 2014 are estimated to be \$830,000. One-half of the total receipts for the Local Option Sales Tax are used for property tax relief and the remaining amounts fund street and sewer improvement projects.

Using This Annual Report

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

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

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

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

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

Supplemental 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 decreased from a year ago, by \$2,240,280. The analysis below shows the change in cash balance and a side by side comparison of receipts and disbursements from the prior year.

Change in Cash Balance of Governmental Activities

	<u>2013</u>	<u>2012</u>
Receipts and transfers:		
Program receipts:		
Charges for services and sales	\$ 820,397	\$ 860,138
Intergovernmental revenues	2,659,081	2,985,951
General receipts:		
Property tax	2,444,298	2,357,629
Tax incremental financing collections	662,093	845,542
Other city tax	1,023,738	1,054,234
Licenses and permits	82,412	33,316
Use of money and property	151,238	159,502
Special assessments	6,833	6,560
Bond and short term debt proceeds	---	3,471,905
Other general receipts	745,651	1,298,090
Transfers-in	<u>1,840,304</u>	<u>2,026,105</u>
 Total receipts and transfers	 <u>\$10,436,045</u>	 <u>\$15,098,972</u>
 Disbursements:		
Public safety	\$ 1,511,893	\$ 1,450,238
Public works	2,468,297	2,251,390
Culture and recreation	1,380,459	1,029,200
Community and economic development	39,860	37,103
General government	2,673,211	3,603,438
Debt service	2,849,030	2,257,597
Capital projects	508,819	---
Transfers-out	<u>1,244,756</u>	<u>1,486,604</u>
 Total disbursements and transfers	 <u>\$12,676,325</u>	 <u>\$12,115,570</u>
 Increase (decrease) in cash balance	 \$(2,240,280)	 \$ 2,983,402
 Cash balance, beginning of fiscal year	 <u>8,736,343</u>	 <u>5,752,941</u>
 Cash balance, end of fiscal year	 <u>\$ 6,496,063</u>	 <u>\$ 8,736,343</u>

The City's total receipts for governmental activities (excluding transfers) decreased by thirty-four percent (34%) or \$4,477,126 from fiscal year 2012. The receipts for governmental activities excluding transfers and bond proceeds decreased ten percent (10%) year over year. Disbursements (excluding transfers) for fiscal year 2013 increased by eight percent (8%) or \$802,603 over fiscal year 2012. Starting fiscal year 2014, the City is in a better position than when it started fiscal year 2012 with a beginning cash balance of \$6,496,063 vs. \$5,752,941.

Property tax receipts increased year over year, by four percent (4%) or \$86,669 due to increased property valuations. However, the property tax levy rate for fiscal year 2013 was reduced by \$0.33046 per thousand or 2.4%.

Business Type Activities

	<u>2013</u>	<u>2012</u>
Receipts		
Program receipts:		
Charges for services and sales	\$ 1,333,557	\$ 1,350,074
Miscellaneous revenues	69,330	565,903
Transfers-in	<u>---</u>	<u>50,000</u>
Total revenues	<u>\$ 1,402,887</u>	<u>\$ 1,965,977</u>
Disbursements and transfers:		
Personal services	\$ 310,573	\$ 315,904
Services and commodities	309,382	1,000,958
Capital outlay	69,644	61,740
Transfers out	<u>595,548</u>	<u>589,501</u>
Total disbursements and transfers	<u>\$ 1,285,147</u>	<u>\$ 1,968,103</u>
Increase (decrease) in cash balance	\$ 117,740	\$ (2,126)
Cash balance, beginning of fiscal year	<u>1,482,790</u>	<u>1,484,916</u>
Cash balance, end of fiscal year	<u>\$ 1,600,530</u>	<u>\$ 1,482,790</u>

Total business-type activity receipts decreased twenty-nine (29%) or \$563,090 year over year. Business-type activity disbursements decreased thirty-five percent (35%) or \$682,957 year over year. The reduction in expenses for 2013 was greater than the reduction in revenues, resulting in an increase in the cash balance of \$117,740.

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 \$1,366,081, a decrease of \$394,981. The City continues to maintain a very strong General Fund balance, which is approximately 27% of General Fund receipts.

The Road Use Tax Fund ending cash balance was \$284,470, a decrease of \$176,248. The City continues to invest all of the Road Use Tax received throughout the year in maintaining and improving the streets.

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 increase of \$269,040 with an ending cash balance of \$715,449.

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 \$1,074,091 from other funds to make payments for these obligations. The fund showed a decrease of \$1,775,148 for the fiscal year and has a fund balance of \$37,403.

Proprietary Funds

The cash balance of the Sewer Fund increased by \$117,740 during the fiscal year. The distribution of Local Option Sales Tax dollars into the Sewer Fund will allow the City to address inflow and infiltration, and invest in capital improvement 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 August 21, 2012 and May 7, 2013 and resulted in an increase in operating disbursements related to a budget overrun of \$2,394,386 in various departmental budgets. The majority of the increase in disbursements were due to the following: repairs at the YCMA from storm damage, purchase of a new fire truck, grant expenses and Water Works grant pass through. The amendment also included a projected increase in revenues of \$1,465,245. The key items increasing budgeted revenues were: insurance reimbursements, other state and federal grants received, and Water Works grant reimbursement. Even with the amendments, the City exceeded the budget in debt service and capital projects.

Debt Administration

At year-end, the City had \$6,225,261 in bonds and other long-term debt compared to \$8,851,307 in fiscal year 2012. See below for a side by side comparison of the outstanding debt obligations for fiscal years 2013 and 2012.

Outstanding Debt at Year End

	<u>2013</u>	<u>2012</u>
General Obligation Capital Loan Note, Series 2008	\$ ---	\$1,715,000
General Obligation Capital Loan Note, Series 2010	1,105,000	1,195,000
General Obligation Capital Loan Note, Series 2012A	1,540,000	1,720,000
General Obligation Refunding Capital Loan Notes, Series 2012B	1,550,000	1,815,000
State Revolving Fund Wastewater Bonds	1,846,000	2,133,000
Sewer Jet Truck	94,145	141,216
Street Department Trucks	<u>90,116</u>	<u>132,091</u>
Total	<u>\$6,225,261</u>	<u>\$8,851,307</u>

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 of \$4,195,000 is well below the City's legal debt limit of \$15,684,063.

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 2014 fiscal year budget, tax rates, and fees that will be charged for various City activities. In addition, capital equipment needs, fuel costs, and the costs of employee benefits are primary concerns in setting a budget.

These factors all contributed when adopting the fiscal year 2014 budget. The total budgeted revenue for fiscal year 2014 is \$14,824,118. This revenue includes Governmental Activities and Business-Type Activities, which including the Sewer and City Water Works departments. Budgeted expenditures for fiscal year 2014 is \$14,109,660. \$9,875,887 is budgeted for Governmental activity expenditures and \$4,233,773 is for Business-Type 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 positive fund balances for the fiscal year 2014 budget. The property tax rate of \$12.95435 for the fiscal year ending June 30, 2014, is a 4.2% decrease of the fiscal year 2013 rate.

Contacting the City's Financial Management

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

FINANCIAL STATEMENTS

CITY OF CRESTON, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the Year Ended June 30, 2013

Exhibit A

	Disbursements	PROGRAM RECEIPTS		
		Charges For Services	Operating Grants Contributions, and Restricted Interest	Capital Grants Contributions and Restricted Interest
FUNCTIONS/PROGRAMS:				
Governmental activities				
Public safety	\$ 1,511,893	\$ 229,615	\$ 12,301	\$ -
Public works	2,468,296	747,509	871,869	465,346
Health and social services	-	-	-	-
Culture and recreation	1,380,459	126,660	164,704	-
Community/economic development	39,860	-	-	-
General government	2,673,211	452,350	841,488	-
Debt service	2,849,030	-	-	-
Capital projects	508,819	-	-	-
Total governmental activities	<u>\$ 11,431,568</u>	<u>\$ 1,556,134</u>	<u>\$ 1,890,362</u>	<u>\$ 465,346</u>
Business type activities				
Sewer	\$ 689,599	\$ 1,333,557	\$ -	\$ 45,748
Total business type activities	<u>\$ 689,599</u>	<u>\$ 1,333,557</u>	<u>\$ -</u>	<u>\$ 45,748</u>
TOTAL PRIMARY GOVERNMENT	<u><u>\$ 12,121,167</u></u>	<u><u>\$ 2,889,691</u></u>	<u><u>\$ 1,890,362</u></u>	<u><u>\$ 511,094</u></u>
COMPONENT UNIT:				
Water Works	<u>\$ 7,068,754</u>	<u>\$ 4,564,549</u>	<u>\$ -</u>	<u>\$ 1,398,389</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
\$ (1,269,977)	\$ -	\$ (1,269,977)	\$ -
(383,572)	-	(383,572)	-
-	-	-	-
(1,089,095)	-	(1,089,095)	-
(39,860)	-	(39,860)	-
(1,379,373)	-	(1,379,373)	-
(2,849,030)	-	(2,849,030)	-
(508,819)	-	(508,819)	-
<u>\$ (7,519,726)</u>	<u>\$ -</u>	<u>\$ (7,519,726)</u>	<u>\$ -</u>
\$ -	\$ 689,706	\$ 689,706	\$ -
\$ -	\$ 689,706	\$ 689,706	\$ -
<u>\$ (7,519,726)</u>	<u>\$ 689,706</u>	<u>\$ (6,830,020)</u>	<u>\$ -</u>
			<u>\$ (1,105,816)</u>
\$ 2,451,130	\$ -	\$ 2,451,130	\$ -
662,093	-	662,093	-
-	-	-	-
130,216	-	130,216	-
893,522	-	893,522	-
10,403	-	10,403	-
46,105	-	46,105	6,381
-	-	-	-
424,683	23,582	448,265	842,108
65,746	-	65,746	-
595,548	(595,548)	-	-
<u>\$ 5,279,446</u>	<u>\$ (571,966)</u>	<u>\$ 4,707,480</u>	<u>\$ 848,489</u>
\$ (2,240,280)	\$ 117,740	\$ (2,122,540)	\$ (257,327)
8,736,343	1,482,790	10,219,133	2,043,861
<u>\$ 6,496,063</u>	<u>\$ 1,600,530</u>	<u>\$ 8,096,593</u>	<u>\$ 1,786,534</u>
\$ 247,020	\$ -	\$ 247,020	
284,470	-	284,470	
871,109	-	871,109	
37,403	161,374	198,777	
3,689,980	1,160,947	4,850,927	
1,366,081	278,209	1,644,290	
<u>\$ 6,496,063</u>	<u>\$ 1,600,530</u>	<u>\$ 8,096,593</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, 2013

Exhibit B

	General	SPECIAL REVENUE	
		Road Use Tax	Employee Benefits
RECEIPTS:			
Property taxes	\$ 1,814,537	\$ -	\$ 481,704
Tax increment financing collections	-	-	-
Other city taxes	130,216	-	-
Licenses and permits	82,412	-	-
Use of money and property	141,179	2,862	-
Intergovernmental	1,609,939	750,230	298,912
Charges for service	812,646	7,751	-
Special assessments	6,833	-	-
Miscellaneous	436,863	9,026	137,023
Total receipts	\$ 5,034,625	\$ 769,869	\$ 917,639
DISBURSEMENTS:			
Operating:			
Public safety	\$ 1,317,929	\$ -	\$ -
Public works	1,443,265	1,025,032	-
Health and social services	-	-	-
Culture and recreation	1,265,858	-	-
Community/economic development	39,860	-	-
General government	1,784,760	-	888,451
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	\$ 5,851,672	\$ 1,025,032	\$ 888,451
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ (817,047)	\$ (255,163)	\$ 29,188
OTHER FINANCING SOURCES (USES):			
Bond proceeds	\$ -	\$ -	\$ -
Operating transfers in	427,566	78,915	239,852
Operating transfers out	(5,500)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ 422,066	\$ 78,915	\$ 239,852
NET CHANGE IN CASH BALANCES	\$ (394,981)	\$ (176,248)	\$ 269,040
CASH BALANCES, BEGINNING OF YEAR	1,761,062	460,718	446,409
CASH BALANCES, END OF YEAR	\$ 1,366,081	\$ 284,470	\$ 715,449

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

SPECIAL REVENUE			Other	
Urban	Local	Debt	Nonmajor	
Renewal Tax	Option	Service	Governmental	Total
Increment	Sales Tax		Funds	
\$ -	\$ -	\$ -	\$ 148,057	\$ 2,444,298
662,093	-	-	-	662,093
-	893,522	-	-	1,023,738
-	-	-	-	82,412
-	-	3,674	3,523	151,238
-	-	-	-	2,659,081
-	-	-	-	820,397
-	-	-	-	6,833
-	-	-	162,739	745,651
<u>\$ 662,093</u>	<u>\$ 893,522</u>	<u>\$ 3,674</u>	<u>\$ 314,319</u>	<u>\$ 8,595,741</u>
\$ -	\$ -	\$ -	\$ 193,964	\$ 1,511,893
-	-	-	-	2,468,297
-	-	-	-	-
-	-	-	114,601	1,380,459
-	-	-	-	39,860
-	-	-	-	2,673,211
-	-	2,849,030	-	2,849,030
-	-	-	508,819	508,819
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,849,030</u>	<u>\$ 817,384</u>	<u>\$11,431,569</u>
<u>\$ 662,093</u>	<u>\$ 893,522</u>	<u>\$ (2,845,356)</u>	<u>\$ (503,065)</u>	<u>\$ (2,835,828)</u>
\$ -	\$ -	\$ -	\$ -	\$ -
5,561	-	1,074,091	14,319	1,840,304
<u>(678,985)</u>	<u>(556,388)</u>	<u>(3,883)</u>	<u>-</u>	<u>(1,244,756)</u>
<u>\$ (673,424)</u>	<u>\$ (556,388)</u>	<u>\$ 1,070,208</u>	<u>\$ 14,319</u>	<u>\$ 595,548</u>
\$ (11,331)	\$ 337,134	\$ (1,775,148)	\$ (488,746)	\$ (2,240,280)
882,440	2,035,458	1,812,551	1,337,705	8,736,343
<u>\$ 871,109</u>	<u>\$2,372,592</u>	<u>\$ 37,403</u>	<u>\$ 848,959</u>	<u>\$ 6,496,063</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, 2013

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	-	284,470	-
Other purposes	-	-	715,449
Committed:			
Community Center	29,970	-	-
Assigned:			
Library infrastructure	1,743	-	-
Equipment acquisition	7,000	-	-
Unassigned	1,327,368	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 1,366,081	\$ 284,470	\$ 715,449

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

<u>SPECIAL REVENUE</u>			Other	
<u>Urban</u>	<u>Local</u>		<u>Nonmajor</u>	
<u>Renewal Tax</u>	<u>Option</u>	<u>Debt</u>	<u>Governmental</u>	
<u>Increment</u>	<u>Sales Tax</u>	<u>Service</u>	<u>Funds</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 224,234	\$ 224,234
-	-	-	22,786	22,786
871,109	-	-	-	871,109
-	-	37,403	-	37,403
-	-	-	-	284,470
-	2,372,592	-	601,939	3,689,980
-	-	-	-	29,970
-	-	-	-	1,743
-	-	-	-	7,000
-	-	-	-	1,327,368
<u>\$ 871,109</u>	<u>\$2,372,592</u>	<u>\$ 37,403</u>	<u>\$ 848,959</u>	<u>\$ 6,496,063</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, 2013

Exhibit C

Enterprise
Fund
Sewer

OPERATING RECEIPTS:	
Charge for service	\$ 1,333,557
Total operating receipts	<u>\$ 1,333,557</u>
OPERATING DISBURSEMENTS:	
Business type activities	\$ 689,599
Total operating disbursements	<u>\$ 689,599</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>\$ 643,958</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):	
Intergovernmental	\$ 45,748
Miscellaneous	23,582
Total non-operating receipts (disbursements)	<u>\$ 69,330</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>\$ 713,288</u>
OTHER FINANCING SOURCES (USES):	
Bond proceeds	\$ -
Operating transfers in	-
Operating transfers out	595,548
Total other financing sources (uses)	<u>\$ 595,548</u>
NET CHANGE IN CASH BALANCES	\$ 117,740
CASH BALANCES, BEGINNING OF YEAR	<u>1,482,790</u>
CASH BALANCES, END OF YEAR	<u>\$ 1,600,530</u>
CASH BASIS FUND BALANCES:	
Reserved for debt service	\$ 161,374
Reserved for capital replacement	941,895
Reserved for storm water	219,052
Unreserved	278,209
Total cash basis fund balances	<u>\$ 1,600,530</u>

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

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 1871 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, 2013

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, 2013

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, 2013

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, 2013, 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, 2013

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, 2013, 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,	General Obligation Capital Loan Notes	Other Debt	Total
2014	\$ 540,000	\$ 391,070	\$ 931,070
2015	540,000	407,191	947,191
2016	550,000	264,000	814,000
2017	560,000	276,000	836,000
2018	565,000	104,000	669,000
2019-2023	1,440,000	242,000	1,682,000
2024-2028	-	284,000	284,000
2029-2030	-	62,000	62,000
	<u>\$ 4,195,000</u>	<u>\$ 2,030,261</u>	<u>\$ 6,225,261</u>

Interest			
Year Ending June 30,	General Obligation Capital Loan Notes	Other Debt	Total
2014	\$ 76,828	\$ 50,834	\$ 127,662
2015	70,785	40,851	111,636
2016	63,853	32,510	96,363
2017	55,803	25,377	81,180
2018	46,563	20,010	66,573
2019-2023	98,742	74,190	172,932
2024-2028	-	35,400	35,400
2029-2030	-	1,860	1,860
	<u>\$ 412,574</u>	<u>\$ 281,032</u>	<u>\$ 693,606</u>

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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, 2013 is \$117,000. The loan bears interest at 1.75% 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, 2013, is \$659,000. The loan bears interest at 1.75% 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, 2013

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, 2013, is \$275,000. The loan bears interest at 1.75% 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, 2013, is \$795,000. 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. The balance at June 30, 2013 is \$94,145.

On April 27, 2010, the City entered into a note agreement with a financial institution for financing the cost of new street dump trucks at a cost of \$210,342 at 4.80% interest. Interest payments and principal payments are due April 1. The balance at June 30, 2013 is \$90,116.

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, 2013

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, 2013, 2012, and 2011 was \$193,542, \$181,538, and \$139,031 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 5.78% of their annual salary and the City is required to contribute 8.67% 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, 2013, 2012, and 2011 was \$99,021, \$90,844, and \$77,624 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, 2013, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 183,123
Sick leave	<u>582,041</u>
Total	<u>\$ 765,164</u>

This liability has been computed based on rates of pay as of June 30, 2013.

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 \$1,307,673 for sewer rental and \$607,214 for garbage collections from the Water Works for the year ended June 30, 2013. The City paid the Water Works \$9,961 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, 2013, the Water Works reimbursed the City \$65,298.

As of June 30, 2013, the Water Works owes the following to the City of Creston:

Sewer rental	\$ 90,747
Garbage collections	<u>41,772</u>
	<u>\$ 132,519</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, 2013, the City was reimbursed \$241,273 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, 2013.

CITY OF CRESTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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, 2014, 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.

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, 2013

Note 10. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013, is as follows:

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special revenue:	
	Urban renewal tax increment	\$ 62,280
	Local option sales tax	174,171
	Enterprise:	
	Sewer	<u>191,115</u>
		<u>\$ 427,566</u>
Debt service	Special revenue:	
	Urban renewal tax increment	\$ 616,705
	Local option sales tax	52,953
	Enterprise:	
	Sewer	<u>404,433</u>
		<u>\$1,074,091</u>
Special revenue: Employee benefits	Special revenue: Local option sales tax	<u>\$ 239,852</u>
McKinley Park	General	<u>\$ 5,500</u>
Road Use	Special revenue: Local option sales tax	<u>\$ 78,915</u>
Urban renewal tax Increment	Special revenue: Local option sales tax	<u>\$ 5,561</u>
Capital Projects	Special revenue: Local option sales tax	\$ 4,936
	Debt service	<u>3,883</u>
		<u>\$ 8,819</u>
Total		<u>\$1,840,304</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, 2013

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>	
2014	\$ 2,467
2015	2,467
2016	2,467
2017	652

Note 12. Subsequent Events

In July 2013, the City awarded a contract to rehabilitate the airport lighting for approximately \$160,900 and to be partly funded by a grant from the Federal Aviation Administration.

In August 2013 the City approved the purchase of a new camera system for the sewer department for a cost of approximately \$66,000.

In August 2013, the City approved the purchase of a new tractor and mower for the cemetery department for a cost of approximately \$19,000.

In September 2013, the City awarded a contract for a new T-Hanger access taxiway project for approximately \$92,000.

Management has evaluated subsequent events through September 19, 2013, 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, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Net
RECEIPTS:			
Property tax	\$ 2,444,298	\$ -	\$ 2,444,298
Tax increment financing collections	662,093	-	662,093
Other city tax	1,023,738	-	1,023,738
Licenses and permits	82,412	-	82,412
Use of money and property	151,238	-	151,238
Intergovernmental	2,659,081	45,748	2,704,829
Charges for service	820,397	1,333,557	2,153,954
Special assessments	6,833	-	6,833
Miscellaneous	745,651	23,582	769,233
TOTAL RECEIPTS	\$ 8,595,741	\$ 1,402,887	\$ 9,998,628
DISBURSEMENTS:			
Public safety	\$ 1,511,893	\$ -	\$ 1,511,893
Public works	2,468,297	-	2,468,297
Health and social services	-	-	-
Culture and recreation	1,380,459	-	1,380,459
Community and economic development	39,860	-	39,860
General government	2,673,211	-	2,673,211
Debt service	2,849,030	-	2,849,030
Capital projects	508,819	-	508,819
Business type activities	-	689,599	689,599
TOTAL DISBURSEMENTS	\$ 11,431,569	\$ 689,599	\$ 12,121,168
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ (2,835,828)	\$ 713,288	\$ (2,122,540)
OTHER FINANCING SOURCES (USES), NET	595,548	(595,548)	-
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	\$ (2,240,280)	\$ 117,740	\$ (2,122,540)
BALANCE, BEGINNING OF YEAR	8,736,343	1,482,790	10,219,133
BALANCE, END OF YEAR	\$ 6,496,063	\$ 1,600,530	\$ 8,096,593

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net
		Variance
\$ 2,280,388	\$ 2,360,388	\$ 83,910
643,115	643,115	18,978
982,170	1,056,170	(32,432)
37,980	57,980	24,432
74,620	74,620	76,618
2,375,219	2,225,968	478,861
2,340,574	2,340,574	(186,620)
-	-	6,833
235,850	700,813	68,420
<u>\$ 8,969,916</u>	<u>\$ 9,459,628</u>	<u>\$ 539,000</u>
\$ 1,501,763	\$ 1,577,142	\$ 65,249
2,480,692	2,625,157	156,860
-	-	-
820,527	1,508,827	128,368
69,869	70,869	31,009
2,663,294	2,870,444	197,233
1,066,349	1,359,061	(1,489,969)
-	504,936	(3,883)
1,370,347	933,680	244,081
<u>\$ 9,972,841</u>	<u>\$ 11,450,116</u>	<u>\$ (671,052)</u>
\$ (1,002,925)	\$ (1,990,488)	\$ (132,052)
-	58,422	(58,422)
\$ (1,002,925)	\$ (1,932,066)	<u>\$ (190,474)</u>
<u>8,309,077</u>	<u>8,309,077</u>	
<u>\$ 7,306,152</u>	<u>\$ 6,377,011</u>	

CITY OF CRESTON, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2013

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 \$1,477,275. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the Capital Projects function prior to amendment and the final budgeted amounts in the Debt Service and Capital Projects functions.

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, 2013

Schedule 1

	Special Revenue		
	Police and Fire Retirement	Police Forfeiture	McKinley Park
RECEIPTS:			
Property tax	\$ 148,057	\$ -	\$ -
Tax increment financing collections	-	-	-
Other city tax	-	-	-
Licenses and permits	-	-	-
Uses of money and property	-	-	-
Intergovernmental	-	-	-
Charges for services	-	-	-
Special assessments	-	-	-
Miscellaneous	-	1,804	93,889
TOTAL RECEIPTS	\$ 148,057	\$ 1,804	\$ 93,889
DISBURSEMENTS:			
Operating:			
Public safety	\$ 193,542	\$ 422	\$ -
Public works	-	-	-
Health and social services	-	-	-
Culture and recreation	-	-	89,696
Community and economic development	-	-	-
General government	-	-	-
Debt service	-	-	-
Capital projects	-	-	-
TOTAL DISBURSEMENTS	\$ 193,542	\$ 422	\$ 89,696
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ (45,485)	\$ 1,382	\$ 4,193
OTHER FINANCING SOURCES (USES):			
Bond proceeds	\$ -	\$ -	\$ -
Operating transfers in	-	-	5,500
Operating transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ -	\$ -	\$ 5,500

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>	
\$ -	\$ -	\$ -	\$ -	\$ 148,057	
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
3,523	-	-	-	3,523	
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
64,166	-	2,880	-	162,739	
<u>\$ 67,689</u>	<u>\$ -</u>	<u>\$ 2,880</u>	<u>\$ -</u>	<u>\$ 314,319</u>	
\$ -	\$ -	\$ -	\$ -	\$ 193,964	
-	-	-	-	-	-
-	-	-	-	-	-
24,905	-	-	-	114,601	
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	508,819	-	-	508,819	
<u>\$ 24,905</u>	<u>\$ 508,819</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 817,384</u>	
<u>\$ 42,784</u>	<u>\$ (508,819)</u>	<u>\$ 2,880</u>	<u>\$ -</u>	<u>\$ (503,065)</u>	
\$ -	\$ -	\$ -	\$ -	\$ -	
-	8,819	-	-	14,319	
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 8,819</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,319</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, 2013

Schedule 1

	Special Revenue		
	Police and Fire Retirement	Police Forfeiture	McKinley Park
NET CHANGE IN CASH BALANCE	\$ (45,485)	\$ 1,382	\$ 9,693
CASH BALANCES, BEGINNING OF YEAR	118,333	4,164	197,074
CASH BALANCES, END OF YEAR	\$ 72,848	\$ 5,546	\$ 206,767
CASH BASIS FUND BALANCES:			
Nonspendable:			
Cemetery perpetual care	\$ -	\$ -	\$ -
Cemetery perpetual decoration	-	-	-
Restricted for:			
Other purposes	72,848	5,546	206,767
TOTAL CASH BASIS FUND BALANCES	\$ 72,848	\$ 5,546	\$ 206,767

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>
\$ 42,784	\$ (500,000)	\$ 2,880	\$ -	\$ (488,746)
<u>273,994</u>	<u>500,000</u>	<u>221,354</u>	<u>22,786</u>	<u>1,337,705</u>
<u>\$ 316,778</u>	<u>\$ -</u>	<u>\$ 224,234</u>	<u>\$ 22,786</u>	<u>\$ 848,959</u>
\$ -	\$ -	\$ 224,234	\$ -	\$ 224,234
-	-	-	22,786	22,786
<u>316,778</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>601,939</u>
<u>\$ 316,778</u>	<u>\$ -</u>	<u>\$ 224,234</u>	<u>\$ 22,786</u>	<u>\$ 848,959</u>

CITY OF CRESTON, IOWA
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2013

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>
Schedule 2			
Amount			
Originally			
Issued			
General obligation capital loan notes:			
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	1.75%	810,000
State Revolving Funds Loan	June 10, 1997	1.75%	2,383,000
State Revolving Funds Loan	March 20, 1998	1.75%	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>
\$ 1,715,000	\$ -	\$ 1,715,000	\$ -	\$ 59,940	\$ -
1,195,000	-	90,000	1,105,000	42,653	-
1,720,000	-	180,000	1,540,000	23,467	-
<u>1,815,000</u>	<u>-</u>	<u>265,000</u>	<u>1,550,000</u>	<u>20,197</u>	<u>-</u>
<u>\$ 6,445,000</u>	<u>\$ -</u>	<u>\$ 2,250,000</u>	<u>\$ 4,195,000</u>	<u>\$ 146,257</u>	<u>\$ -</u>
			4		
\$ 172,000	\$ -	\$ 55,000	\$ 117,000	\$ 5,160	\$ -
806,000	-	147,000	659,000	24,180	-
323,000	-	48,000	275,000	9,690	-
832,000	-	37,000	795,000	24,960	-
141,216	-	47,071	94,145	6,371	-
<u>132,091</u>	<u>-</u>	<u>41,975</u>	<u>90,116</u>	<u>6,365</u>	<u>-</u>
<u>\$ 2,406,307</u>	<u>\$ -</u>	<u>\$ 376,046</u>	<u>\$ 2,030,261</u>	<u>\$ 76,726</u>	<u>\$ -</u>

CITY OF CRESTON, IOWA
 BOND AND OTHER DEBT MATURITIES
 JUNE 30, 2013

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
2014	3.55	\$ 95,000	0.60	\$ 190,000	0.60	\$ 255,000
2015	3.55	95,000	0.80	190,000	0.80	255,000
2016	3.55	100,000	1.00	195,000	1.00	255,000
2017	3.60	105,000	1.20	195,000	1.20	260,000
2018	3.60	110,000	1.35	195,000	1.35	260,000
2019	3.30	110,000	1.60	195,000	1.60	265,000
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		<u><u>\$ 1,105,000</u></u>		<u><u>\$ 1,540,000</u></u>		<u><u>\$ 1,550,000</u></u>

See accompanying independent auditor's report.

Total General Obligation Capital Loan Notes	Other Debt	
	State Revolving Funds Loan Dated March 20, 1998	
	Interest Rates	Amount
\$ 540,000	1.75	\$ 50,000
540,000	1.75	53,000
550,000	1.75	55,000
560,000	1.75	57,000
565,000	1.75	60,000
570,000	-	-
240,000	-	-
245,000	-	-
255,000	-	-
130,000	-	-
<u>\$ 4,195,000</u>		<u>\$ 275,000</u>

CITY OF CRESTON, IOWA
 BOND AND OTHER DEBT MATURITIES
 JUNE 30, 2013

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
2014	1.75	\$ 57,000	1.75	\$ 154,000	3.00	\$ 39,000
2015	1.75	60,000	1.75	161,000	3.00	40,000
2016	-	-	1.75	168,000	3.00	41,000
2017	-	-	1.75	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
		\$ 117,000		\$ 659,000		\$ 795,000

See accompanying independent auditor's report.

Other Debt

Sewer Truck		Street Trucks		Total Other Debt
Interest Rates	Amount	Interest Rates	Amount	
4.45	\$ 47,072	4.80	\$ 43,998	\$ 391,070
4.45	47,073	4.80	46,118	407,191
-	-	-	-	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>\$ 94,145</u>		<u>\$ 90,116</u>	<u>\$ 2,030,261</u>

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

Schedule 4

	2013	2012	2011
RECEIPTS:			
Property tax	\$ 2,444,298	\$ 2,357,629	\$2,237,733
Tax incremental financing collections	662,093	845,542	982,107
Other city tax	1,023,738	1,054,234	967,832
Licenses and permits	82,412	33,316	85,868
Uses of money and property	151,238	159,502	137,851
Intergovernmental	2,659,081	2,985,951	1,823,211
Charges for services	820,397	860,138	784,966
Special assessments	6,833	6,560	4,673
Miscellaneous	745,651	1,298,090	869,589
 TOTAL	 \$ 8,595,741	 \$ 9,600,962	 \$7,893,830
DISBURSEMENTS:			
Operating:			
Public safety	\$ 1,511,893	\$ 1,450,238	\$1,414,502
Public works	2,468,297	2,251,390	2,995,965
Health and social services	-	-	-
Culture and recreation	1,380,459	1,029,200	697,349
Community and economic development	39,860	37,103	34,537
General government	2,673,211	3,603,438	1,906,869
Debt service	2,849,030	2,257,597	1,070,878
Capital projects	508,819	-	406,828
 TOTAL	 \$11,431,569	 \$10,628,966	 \$8,526,928

See accompanying independent auditor's report.

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$2,206,761	\$1,834,171	\$1,610,447	\$1,751,774	\$2,347,714	\$2,406,504
830,465	570,169	377,466	257,088	123,798	125,512
995,380	938,578	930,308	958,901	642,641	90,754
45,691	53,262	35,096	84,004	83,496	58,863
138,544	220,911	309,648	272,066	178,858	67,787
1,964,979	1,877,398	1,604,264	1,443,949	1,714,568	1,701,605
731,480	754,752	728,682	636,366	631,690	636,413
6,564	3,202	1,120	1,123	770	768
402,807	574,130	405,027	529,052	273,672	255,315
<u>\$7,322,671</u>	<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>
\$1,291,228	\$1,935,678	\$1,369,057	\$1,329,216	\$1,382,540	\$1,284,193
1,606,899	1,710,960	1,550,531	1,424,508	1,242,654	1,376,244
-	-	-	-	-	-
579,237	709,738	1,055,408	574,424	475,808	440,350
34,522	45,807	29,577	22,051	36,840	29,966
2,288,799	1,609,437	1,818,139	1,525,619	1,859,588	817,126
1,088,399	1,060,991	1,137,048	748,852	987,032	1,022,485
118,361	12,676	39,328	7,016	94,540	397,048
<u>\$7,007,445</u>	<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, 2013

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 Justice Bullet proof vest partnership program	16.607		<u>\$ 682</u>
United States Department of Federal Aviation: Airport Improvements Grants Access road improvements	20.106		<u>\$ 465,346</u>
United States Department of Housing and Urban Development: Iowa Department of Economic Development Community Development Block Grant Water improvement project	14.228	07-WS-021	\$ 4,300
Lake improvement project	14.228	08-DRIEF-250	205,786
Water improvement project	14.228	11-WS-015	498,875
Housing project	14.228	09-HSG-022	<u>130,592</u>
Total Iowa Department of Economic Development			<u>\$ 839,553</u>
 Total Federal Expenditures			 <u><u>\$ 1,305,581</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, 2013

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.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards by the Comptroller General of the United States, the 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 City of Creston, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Creston, Iowa's basic financial statements and have issued our report thereon dated September 19, 2013. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Creston, Iowa's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Creston, Iowa's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Creston, Iowa's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Creston, Iowa's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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, 2013 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 Findings

City of Creston, Iowa's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. City of Creston, Iowa's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

September 19, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE AND
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED
BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited City of Creston, Iowa's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of City of Creston, Iowa's major federal program for the year ended June 30, 2013. City of Creston, Iowa's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for City of Creston, Iowa's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Controller 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 on compliance for the major federal program. However, our audit does not provide a legal determination of City of Creston, Iowa's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Creston, Iowa complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2013.

Report on Internal Control over Compliance

The management of City of Creston, Iowa is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Creston, Iowa's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a significant deficiency.

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 and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, 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 to be significant deficiencies.

City of Creston, Iowa's response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings and Questioned Costs. City of Creston, Iowa's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

September 19, 2013

CITY OF CRESTON, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

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, 2013

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS

2013-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

No matters were noted.

SIGNIFICANT DEFICIENCIES:

2013-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 2013-II-A.

CITY OF CRESTON, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

PART IV. OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

- 2013-IV-1 Certified Budget: Disbursements during the year ended June 30, 2013, exceeded the amounts budgeted in the Capital Projects function prior to budget amendment and in the Debt Service and Capital Projects functions 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.
- 2013-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.
- 2013-IV-3 Travel Expense: No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.
- 2013-IV-4 Business Transactions: No business transactions between the City and City officials or employees were noted.
- 2013-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.
- 2013-IV-6 Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.
- 2013-IV-7 Revenue Bonds: The City does not have revenue bonds, only general obligation bond.
- 2013-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.

DRAPER, SNODGRASS, MIKKELSEN & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS - IOWA SOCIETY OF CPAs
AMERICAN INSTITUTE OF CPAs

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309 EAST MONTGOMERY STREET
CRESTON, IOWA 50801

September 19, 2013

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

In planning and performing our audit of the financial statements of the City of Creston, Iowa, for the year ended June 30, 2013, in accordance with U.S. generally accepted auditing standards, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant or material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This communication is intended solely for the information and use of management, the finance committee, the city council, and others within the city, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Draper, Snodgrass, Mikkelsen & Co., P.C.

Draper, Snodgrass, Mikkelsen & Co., P.C.

CITY OF CRESTON, IOWA
MANAGEMENT LETTER MEMORANDUM

A. Reimbursement for Utility Service

The City currently reimburses an individual for electric service provided for an airport beacon that is located on the individual's property as a safety device for the airport. This reimbursement has been made for several years, however when reviewed there is very little for documentation for the reimbursement. The individual is to submit a bill for the annual reimbursement. This has not been done on a consistent basis and may be for a single year or for multiple years. It appears that the original agreement was made orally with the City and the previous owner.

While we understand that this has been a reimbursement that has been made for several years and is ongoing, we would suggest that a written document be prepared to document the understanding of all parties involved as to the reason for the reimbursement and the terms for reimbursement.