

CITY OF CRESCO, IOWA
FINANCIAL STATEMENTS
JUNE 30, 2014

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Officials

Name	Title	Term Expires
Elected Officials		
(Before January, 2014)		
Mark Bohle	Mayor	January, 2014
John Loveless	Mayor Pro Tem	January, 2016
Teresa McGee	Council Member	January, 2016
Amy Bouska	Council Member	January, 2014
Jan Carman	Council Member	January, 2016
Steve McCarville	Council Member	January, 2014
(After January, 2014)		
Mark Bohle	Mayor	January, 2016
John Loveless	Mayor Pro Tem	January, 2016
Teresa McGee	Council Member	January, 2016
Amy Bouska	Council Member	January, 2018
Jan Carman	Council Member	January, 2016
Steve McCarville	Council Member	January, 2018
Appointed Officials		
Michelle Girolamo	City Clerk	Indefinite
Joseph P. Braun	Attorney	Indefinite
Rodney Freidhof	Public Works Director	Indefinite

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Certified Public Accountants and Consultants

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Cresco, 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 Cresco, Iowa, as of and for the year ended June 30, 2014, 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 prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America; 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 from material misstatement.

An audit involves 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Cresco as of June 30, 2014, and the respective changes in the cash basis financial position for the year then ended, in conformity with the basis of accounting described in Note 1.

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 accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

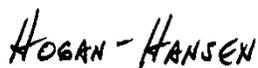
Supplementary Information - Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cresco's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included on pages 25 through 29 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards general accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Disclaimer of Opinion on Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2014 on our consideration of the City of Cresco's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Cresco's internal control over financial reporting and compliance.



HOGAN - HANSEN

Mason City, Iowa
October 15, 2014

City of Cresco, Iowa
Management's Discussion and Analysis
June 30, 2014

The City of Cresco provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased \$1,577,421 from fiscal year 2013 to fiscal year 2014. This decrease is primarily due to \$1,635,402 of note proceeds that were received in the 2013 fiscal year.

Disbursements of the City's governmental activities decreased \$1,462,118 in fiscal year 2014 from fiscal year 2013. This decrease is mainly due to a decrease in debt service disbursements. In fiscal year 2013, \$1,210,000 of general obligation notes were refinanced. In addition, capital project disbursements decreased by approximately \$140,000 in fiscal year 2014. Also, there were \$103,000 less funds disbursed for revolving loans in fiscal year 2014.

The City's total cash basis net position decreased \$389 from June 30, 2013 to June 30, 2014. Of this amount, the cash basis net position of the governmental activities decreased \$83,041 and the cash basis net position of the business-type activities increased \$82,652.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

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

The government-wide financial statement consists of a statement of activities and net position - cash basis. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The statement of activities and net position - cash basis reports information that helps answer this question.

The statement of activities and net position - cash basis presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities and net position - cash basis is divided into two kinds of activities:

- Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, state and federal grants and charges for service finance most of these activities.
- Business-type activities include the waterworks, the sanitary sewer system and various other activities. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year end that are available for spending. The governmental funds include (a) the General Fund; (b) the Special Revenue Funds such as Road Use Tax and Employee Benefits; (c) the Debt Service Fund and (d) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2. Proprietary funds account for the City's enterprise funds and for the internal service fund. Enterprise funds are used to report business-type activities. The City maintains several enterprise funds to provide separate information for water, sewer, capital improvement and yard waste, of which water and sewer funds are considered to be major funds of the City. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

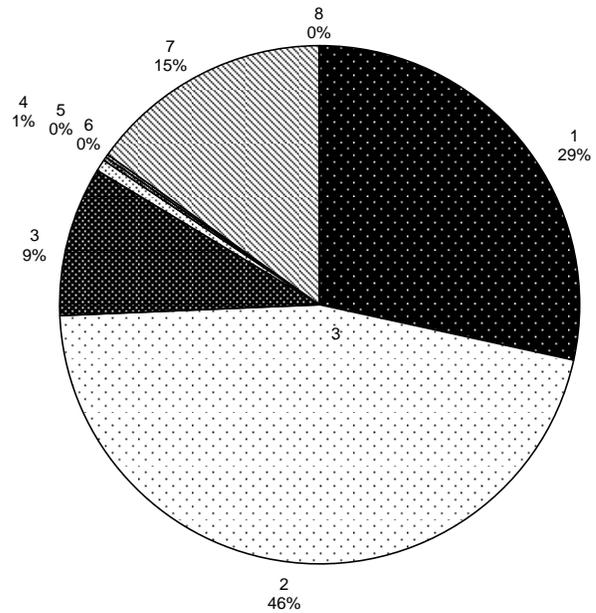
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from \$3,914,692 a year ago to \$3,831,651. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities

	<u>Year Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Receipts		
Program Receipts		
Charges for service	\$ 1,157,920	\$ 1,183,775
Operating grants, contributions and restricted interest	616,957	602,197
General Receipts		
Property and other city tax	1,869,164	1,810,880
Local option sales tax	380,683	399,784
Unrestricted interest on investments	9,797	8,064
Note proceeds	30,000	1,635,402
Sale of capital assets	7,501	7,280
Other general receipts	534	2,595
Total Receipts	<u>4,072,556</u>	<u>5,649,977</u>
Disbursements		
Public safety	874,205	857,889
Public works	1,188,830	1,197,395
Health and social services	4,151	3,929
Culture and recreation	1,076,727	1,046,742
Community and economic development	146,709	274,145
General government	305,630	301,102
Debt service	387,129	1,573,696
Capital projects	215,228	405,829
Total Disbursements	<u>4,198,609</u>	<u>5,660,727</u>
Change in Net Position Before Transfers	(126,053)	(10,750)
Transfers, net	<u>43,012</u>	<u>(94)</u>
Change in Cash Basis Net Position	(83,041)	(10,844)
Cash Basis Net Position - Beginning of Year	<u>3,914,692</u>	<u>3,925,536</u>
Cash Basis Net Position - End of Year	<u>\$ 3,831,651</u>	<u>\$ 3,914,692</u>

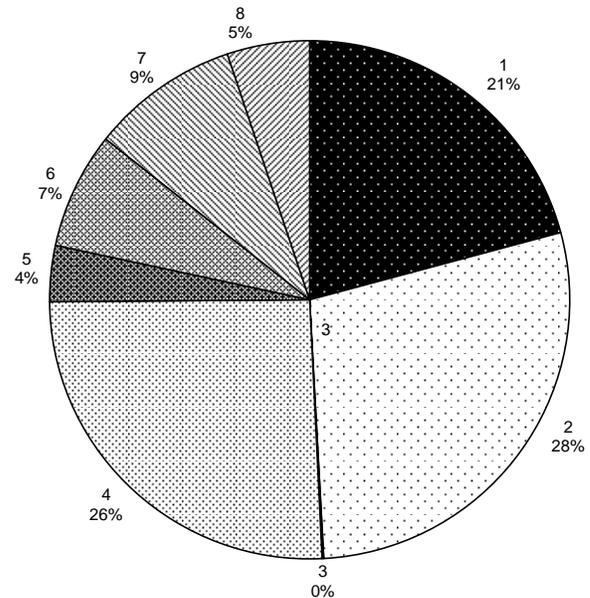
Receipts by Source

1. Charges for service	\$ 1,157,920
2. Property and other city tax	1,869,164
3. Local option sales tax	380,683
4. Note proceeds	30,000
5. Unrestricted interest on investments	9,797
6. Sale of capital assets	7,501
7. Operating grants, contributions and restricted interest	616,957
8. Other general receipts	<u>534</u>
Total	<u>\$ 4,072,556</u>



Disbursements by Function

1. Public safety	\$ 874,205
2. Public works	1,188,830
3. Health and social services	4,151
4. Culture and recreation	1,076,727
5. Community and economic development	146,709
6. General government	305,630
7. Debt service	387,129
8. Capital projects	<u>215,228</u>
Total	<u>\$ 4,198,609</u>



The City's total receipts for governmental activities decreased by 28%, or \$1,577,421. The decrease was due to less note proceeds received offset by an increase in taxes, proceeds from sale of capital assets and receipt of grant money.

The total cost of all programs and services decreased by \$1,462,118, or 26%. The majority of this decrease was in the debt service function due to refinancing \$1,210,000 general obligation notes in fiscal year 2013.

Changes in Cash Basis Net Position of Business-Type Activities

	Year Ended June 30,	
	2014	2013
Receipts		
Program Receipts		
Charges for Service		
Water	\$ 495,292	\$ 487,898
Sewer	736,217	766,327
Capital improvements	—	45,321
Other proprietary	84,495	40,607
Operating grants, contributions and restricted interest	5,100	—
General Receipts		
Sale of capital assets	1,400	675
Note proceeds	—	105,910
Unrestricted interest on investments	2,085	2,019
Other general receipts	165	647
Total Receipts	1,324,754	1,449,404
Disbursements		
Water	470,642	490,101
Sewer	669,270	616,816
Capital improvements	—	11,493
Other proprietary	59,178	52,794
Total Disbursements	1,199,090	1,171,204
Change in Cash Basis Net Position Before Transfers	125,664	278,200
Transfers, net	(43,012)	94
Change in Cash Basis Net Position	82,652	278,294
Cash Basis Net Position - Beginning of Year	1,989,046	1,710,752
Cash Basis Net Position - End of Year	\$ 2,071,698	\$ 1,989,046

Total business-type activities receipts for the fiscal year were \$1,324,754 compared to \$1,449,404 last year. The decrease was mainly due to note proceeds received in fiscal year 2013. The cash balance increased by \$82,652, or 4%, from the prior year. Total disbursements for the fiscal year increased by 2%, or \$27,886. This increase in disbursements was primarily due to the purchase of a used tractor for the Sewer Department and storm sewers installed in fiscal year 2014.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City of Cresco's governmental funds reported a combined fund balance of \$3,786,759, a decrease of \$87,220 from last year's total of \$3,873,979.

The following are the major reasons for the changes in fund balances of the major funds from the prior year:

The General Fund cash balance increased \$16,046 from the prior year to \$1,957,832. This increase was largely due to almost all of the General Fund departments having more receipts and less disbursements for operations than budgeted. There were more taxes received than spent to try to build reserves for future equipment and projects.

The Special Revenue, Road Use Tax Fund cash balance increased by \$45,714 to \$644,242 during the fiscal year. This increase is due to more road use tax received than budgeted and disbursements were less than budgeted. Local option sales tax rather than road use tax has been used to pay for some disbursements for electricity, chip sealing, rock, sand and salt and build up reserves for the Road Use Tax Fund.

The Special Revenue, Employee Benefits Fund cash balance increased \$35,688 to \$521,523 during the fiscal year. This year the City received \$472,263 in property tax. The City also received money from employees for their portion of family health insurance premiums. Total revenue was \$497,979. This fund pays FICA, Medicare, IPERS, unemployment claims, health and life insurance for employees, except those employees paid from the water and sewer utilities. Expenses increased \$4,832 over the fiscal year ended June 30, 2013.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance increased \$540 to \$455,419 due to a surplus of operating receipts over disbursements.

The Enterprise, Sewer Fund cash balance increased \$72,059 to \$1,205,811 due to less slip lining completed than anticipated. Payroll disbursements were less than fiscal year 2013 due to shared employees with the Water Department. Electricity was less than fiscal year 2013 due to improvements at the plant and monitoring peak usage.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget three times. The amendments were approved on October 21, 2013, April 7, 2014 and May 19, 2014. The amendments resulted in increasing budgeted disbursements \$392,200, budgeted receipts \$136,741 and the budgeted loss from \$298,821 to \$554,280. Disbursements increased for a tractor, water heaters, storm sewers, repairs and other unanticipated disbursements.

The City's disbursements did not exceed the amounts budgeted for the year ended June 30, 2014.

DEBT ADMINISTRATION

As of June 30, 2014, the City had \$2,972,000 of notes outstanding, compared to \$3,365,000 last year, as shown below.

Outstanding Debt at Year End

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
General obligation notes	\$ 2,292,000	\$ 2,635,000
Revenue notes	<u>680,000</u>	<u>730,000</u>
Total	<u>\$ 2,972,000</u>	<u>\$ 3,365,000</u>

Debt decreased as a result of payment of principal during the fiscal year.

The City continues to carry a general obligation bond rating of A1. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,292,000 is below its constitutional debt limit of \$8,511,417. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

There is some uncertainty regarding property tax receipts due to changes in the law regarding commercial rollbacks and caps on increases of taxable valuations. Disbursements continue to rise and limited receipts are causing the City to look at options to reduce disbursements and operate as efficiently as possible.

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 financial information, please contact Michelle Girolamo, City Clerk, at 130 North Park Place, Cresco, IA 52136-1631.

Basic Financial Statements

Statement of Activities and Net Position - Cash Basis

As of and for the Year Ended June 30, 2014

Functions/Programs	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Position			Component Units
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total	
Governmental Activities							
Public safety	\$ 874,205	\$ 26,471	\$ 64,404	\$ (783,330)	\$ —	\$ (783,330)	\$ —
Public works	1,188,830	585,912	425,484	(177,434)	—	(177,434)	—
Health and social services	4,151	—	—	(4,151)	—	(4,151)	—
Culture and recreation	1,076,727	474,128	58,682	(543,917)	—	(543,917)	—
Community and economic development	146,709	300	62,954	(83,455)	—	(83,455)	—
General government	305,630	71,109	5,433	(229,088)	—	(229,088)	—
Debt service	387,129	—	—	(387,129)	—	(387,129)	—
Capital projects	215,228	—	—	(215,228)	—	(215,228)	—
Total Governmental Activities	4,198,609	1,157,920	616,957	(2,423,732)	—	(2,423,732)	—
Business-Type Activities							
Water	470,642	495,292	—	—	24,650	24,650	—
Sewer	669,270	736,217	5,100	—	72,047	72,047	—
Other proprietary	59,178	84,495	—	—	25,317	25,317	—
Total Business-Type Activities	1,199,090	1,316,004	5,100	—	122,014	122,014	—
Total	\$ 5,397,699	\$ 2,473,924	\$ 622,057	(2,423,732)	122,014	(2,301,718)	—
Component Units							
Cresco Public Library Foundation	\$ 6,105	—	\$ 17,479	—	—	—	11,374
Cresco Fire Fighters, Inc.	38,349	—	36,743	—	—	—	(1,606)
Total Component Units	\$ 44,454	—	\$ 54,222	—	—	—	9,768
General Receipts and Transfers							
Property and Other City Tax Levied for							
General purposes				1,086,117	—	1,086,117	—
Debt service				301,291	—	301,291	—
Employee benefits				481,756	—	481,756	—
Local option sales tax				380,683	—	380,683	—
Unrestricted interest on investments				9,797	2,085	11,882	3,856
Miscellaneous				534	165	699	—
General obligation note proceeds				30,000	—	30,000	—
Sale of capital assets				7,501	1,400	8,901	—
Transfers, net				43,012	(43,012)	—	—
Total General Receipts and Transfers				2,340,691	(39,362)	2,301,329	3,856
Change in Cash Basis Net Position				(83,041)	82,652	(389)	13,624
Cash Basis Net Position - Beginning of Year				3,914,692	1,989,046	5,903,738	346,478
Cash Basis Net Position - End of Year				\$ 3,831,651	\$ 2,071,698	\$ 5,903,349	\$ 360,102
Cash Basis Net Position							
Restricted							
Expendable							
Debt service				\$ 235,316	\$ 277,144	\$ 512,460	\$ —
Streets				644,242	—	644,242	—
Employee benefits				521,523	—	521,523	—
Other purposes				357,846	—	357,846	—
Unrestricted				2,072,724	1,794,554	3,867,278	360,102
Total Cash Basis Net Position				\$ 3,831,651	\$ 2,071,698	\$ 5,903,349	\$ 360,102

See accompanying notes to the financial statements.

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

As of and for the Year Ended June 30, 2014

	General	Special Revenue		Nonmajor	Total
		Road Use Tax	Employee Benefits		
Receipts					
Property tax	\$ 1,007,171	\$ —	\$ 472,263	\$ 295,463	\$ 1,774,897
Other city tax	57,566	—	9,493	386,511	453,570
Licenses and permits	50,411	—	—	—	50,411
Use of money and property	59,215	—	490	6,759	66,464
Intergovernmental	105,947	386,234	—	14,222	506,403
Charges for service	956,336	—	—	1,481	957,817
Special assessments.....	—	—	—	21,380	21,380
Miscellaneous.....	103,395	—	15,733	84,985	204,113
Total Receipts	<u>2,340,041</u>	<u>386,234</u>	<u>497,979</u>	<u>810,801</u>	<u>4,035,055</u>
Disbursements					
Operating					
Public safety	697,570	—	174,803	3,000	875,373
Public works	735,688	340,520	113,989	—	1,190,197
Health and social services.....	4,151	—	—	—	4,151
Culture and recreation	875,494	—	131,232	71,283	1,078,009
Community and economic development.....	54,041	—	—	92,668	146,709
General government.....	263,725	—	42,267	—	305,992
Debt service	—	—	—	387,129	387,129
Capital projects.....	—	—	—	215,228	215,228
Total Disbursements	<u>2,630,669</u>	<u>340,520</u>	<u>462,291</u>	<u>769,308</u>	<u>4,202,788</u>
Receipts Over (Under) Disbursements.....	<u>(290,628)</u>	<u>45,714</u>	<u>35,688</u>	<u>41,493</u>	<u>(167,733)</u>
Other Financing Sources (Uses)					
General obligation note proceeds.....	—	—	—	30,000	30,000
Sales of capital assets.....	7,501	—	—	—	7,501
Transfers in	360,581	—	—	241,997	602,578
Transfers out	(61,408)	—	—	(498,158)	(559,566)
Total Other Financing Sources (Uses)...	<u>306,674</u>	<u>—</u>	<u>—</u>	<u>(226,161)</u>	<u>80,513</u>
Change in Cash Balances.....	16,046	45,714	35,688	(184,668)	(87,220)
Cash Balances - Beginning of Year.....	1,941,786	598,528	485,835	847,830	3,873,979
Cash Balances - End of Year	<u>\$ 1,957,832</u>	<u>\$ 644,242</u>	<u>\$ 521,523</u>	<u>\$ 663,162</u>	<u>\$ 3,786,759</u>
Cash Basis Fund Balances					
Restricted for					
Employee benefits	\$ —	\$ —	\$ 521,523	\$ —	\$ 521,523
Fire equipment.....	—	—	—	151,886	151,886
Equipment repair - fitness.....	—	—	—	70,676	70,676
CIDC revolving loan.....	—	—	—	43,430	43,430
Debt service.....	—	—	—	235,316	235,316
Streets	—	644,242	—	—	644,242
Library.....	—	—	—	42,887	42,887
Other purposes.....	—	—	—	48,967	48,967
Committed to					
Telecommunications.....	75,386	—	—	—	75,386
Airpacks and turnout gear.....	—	—	—	70,000	70,000
Assigned for					
Streets	156,778	—	—	—	156,778
Other purposes.....	85,303	—	—	—	85,303
Unassigned	1,640,365	—	—	—	1,640,365
Total Cash Basis Fund Balances	<u>\$ 1,957,832</u>	<u>\$ 644,242</u>	<u>\$ 521,523</u>	<u>\$ 663,162</u>	<u>\$ 3,786,759</u>

See accompanying notes to the financial statements.

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

As of and for the Year Ended June 30, 2014

Total Governmental Funds Cash Balances (Page 12).....	\$ 3,786,759
--	---------------------

Amounts reported for governmental activities in the statement of activities and net position - cash basis are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Fund is included in governmental activities in the statement of activities and net position - cash basis.....

44,892

Cash Basis Net Position of Governmental Activities (Page 11).....	<u>\$ 3,831,651</u>
--	----------------------------

Change in Cash Balances (Page 12).....	\$ (87,220)
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Amounts reported for governmental activities in the statement of activities and net position - cash basis are different because:

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

4,179

Change in Cash Basis Net Position of Governmental Activities (Page 11).....	<u>\$ (83,041)</u>
--	---------------------------

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

As of and for the Year Ended June 30, 2014

	Enterprise			Total	Internal Service Employee Health
	Water	Sewer	Nonmajor		
Operating Receipts					
Charges for service	\$ 471,913	\$ 724,459	\$ 84,495	\$ 1,280,867	\$ —
Miscellaneous.....	23,379	17,023	—	40,402	35,817
Total Operating Receipts	<u>495,292</u>	<u>741,482</u>	<u>84,495</u>	<u>1,321,269</u>	<u>35,817</u>
Operating Disbursements					
Business-type activities	471,763	601,003	59,178	1,131,944	—
Governmental Activities					
General government.....	—	—	—	—	29,500
Total Operating Disbursements	<u>471,763</u>	<u>601,003</u>	<u>59,178</u>	<u>1,131,944</u>	<u>29,500</u>
Excess of Operating Receipts Over Operating Disbursements.....	<u>23,529</u>	<u>140,479</u>	<u>25,317</u>	<u>189,325</u>	<u>6,317</u>
Nonoperating Receipts (Disbursements)					
Interest on investments	470	1,226	389	2,085	62
Debt service	—	(69,346)	—	(69,346)	—
Sale of capital assets	700	700	—	1,400	—
Net Nonoperating Receipts (Disbursements).....	<u>1,170</u>	<u>(67,420)</u>	<u>389</u>	<u>(65,861)</u>	<u>62</u>
Excess of Receipts Over Disbursements..	<u>24,699</u>	<u>73,059</u>	<u>25,706</u>	<u>123,464</u>	<u>6,379</u>
Other Financing Sources (Uses)					
Transfers in	9,983	—	—	9,983	—
Transfers out	(34,142)	(1,000)	(17,853)	(52,995)	—
Total Other Financing Sources (Uses)...	<u>(24,159)</u>	<u>(1,000)</u>	<u>(17,853)</u>	<u>(43,012)</u>	<u>—</u>
Change in Cash Balances.....	540	72,059	7,853	80,452	6,379
Cash Balances - Beginning of Year.....	454,879	1,133,752	383,796	1,972,427	57,332
Cash Balances - End of Year.....	<u>\$ 455,419</u>	<u>\$ 1,205,811</u>	<u>\$ 391,649</u>	<u>\$ 2,052,879</u>	<u>\$ 63,711</u>
Cash Basis Fund Balances					
Restricted for debt service.....	\$ —	\$ 277,144	\$ —	\$ 277,144	\$ —
Unrestricted.....	455,419	928,667	391,649	1,775,735	63,711
Total Cash Basis Fund Balances	<u>\$ 455,419</u>	<u>\$ 1,205,811</u>	<u>\$ 391,649</u>	<u>\$ 2,052,879</u>	<u>\$ 63,711</u>

See accompanying notes to financial statements.

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

As of and for the Year Ended June 30, 2014

Total Enterprise Funds Cash Balances (Page 14)..... **\$ 2,052,879**

Amounts reported for business-type activities in the statement of activities and net position - cash basis are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Fund is included in the business-type activities in the statement of activities and net position - cash basis.....

18,819

Cash Basis Net Position of Business-Type Activities (Page 11)..... **\$ 2,071,698**

Change in Cash Balances (Page 14)..... **\$ 80,452**

Amounts reported for business-type activities in the statement of activities and net position - cash basis are different because:

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

2,200

Change in Cash Basis Net Position of Business-Type Activities (Page 11).... **\$ 82,652**

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

Reporting Entity

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

These financial statements present the City of Cresco (the primary government) and its discretely presented component units, the Cresco Public Library Foundation (Foundation) and Cresco Fire Fighters, Inc. (Organization). Neither the Foundation nor the Organization issue separately audited financial statements.

Discrete Component Units

The Cresco Public Library Foundation (an Iowa nonprofit corporation) is a component unit that is legally separate from the City. The Foundation is governed by a Board of Trustees, which is the same Board as the Library Board. Economic resources received by the Foundation are used for the direct benefit of the Cresco Public Library and, therefore, the City's constituents.

Cresco Fire Fighters, Inc. (an Iowa nonprofit corporation) is a component unit that is legally separate from the City. The Organization is governed by a Board of Directors. Economic resources received by the Organization are used for the direct benefit of the City's constituents. The Organization has a year end of December 31. Accordingly, the Organization's financial information included in the statement of activities and net position is as of and for the year ended December 31, 2013.

In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation and the Cresco Fire Fighters, Inc. meet the definition of a component unit which should be discretely presented.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods and services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Cresco Industrial Development Corporation, Planning and Zoning Board, Regional Health Services Foundation Board, Intermediary Relending Program Board, Prairie Springs Recreation Trails Board, Upper Explorerland Regional Planning Commission and Howard County Agricultural Society Board.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Basis of Presentation

Government-Wide Financial Statements

The statement of activities and net position - cash basis reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of activities and net position - cash basis presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Expendable restricted net position results when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. Unrestricted net position often have constraints on cash balances imposed by management, which can be removed or modified.

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

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds, and all remaining enterprise funds are aggregated and reported as other nonmajor proprietary funds.

The City reports the following major governmental funds:

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

Special Revenue

The *Road Use Tax Fund* is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The City reports the following major proprietary funds:

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

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

The City also reports the following additional proprietary fund:

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

Basis of Accounting

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

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

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

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

Governmental Cash Basis Fund Balances

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

Unassigned - All amounts not included in the preceding classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. Disbursements for the year ended June 30, 2014 did not exceed the amounts budgeted.

(2) Deposits and Investments

The City's deposits as of June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

City investments are categorized to give an indication of the level of risk assumed by the City at year end. The City had no investments other than certificates of deposit as of June 30, 2014.

Component Units

The Cresco Public Library Foundation deposits as of June 30, 2014 are shown below:

Certificates of deposit	\$ 245,048
Checking/savings	28,949
	<u>\$ 273,997</u>

Cresco Fire Fighters, Inc. deposits as of December 31, 2013 are shown below:

Certificates of deposit	\$ 10,285
Checking/savings	75,820
	<u>\$ 86,105</u>

Notes to the Financial Statements

(3) Notes Payable

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

Ending June 30,	General Obligation Notes		Sewer Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 349,000	\$ 35,262	\$ 52,000	\$ 17,025	\$ 401,000	\$ 52,287
2016	360,000	31,967	54,000	15,890	414,000	47,857
2017	285,000	27,944	57,000	14,708	342,000	42,652
2018	201,000	24,608	58,000	13,460	259,000	38,068
2019	202,000	21,702	61,000	12,195	263,000	33,897
2020-2024 ..	845,000	56,235	202,000	42,355	1,047,000	98,590
2025-2029 ..	50,000	2,813	135,000	21,600	185,000	24,413
2029-2031 ..	—	—	61,000	2,760	61,000	2,760
	<u>\$ 2,292,000</u>	<u>\$ 200,531</u>	<u>\$ 680,000</u>	<u>\$ 139,993</u>	<u>\$ 2,972,000</u>	<u>\$ 340,524</u>

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay sewer revenue notes issued in August, 2001 and June, 2011. Proceeds from the notes provided financing for improvements to the sewer system. The notes are payable solely from sewer customer net receipts and are payable through 2021 and 2031, respectively. Sewer user charges must be established at a level which produces and maintains net revenue at a level not less than 110% of principal and interest falling due in the same year. As of June 30, 2014, the total principal and interest remaining to be paid on the notes is \$819,993. For the current year, principal and interest paid and total customer net receipts were \$68,125 and \$141,013, respectively.

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

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

The City was in compliance with these provisions as of June 30, 2014.

Notes to the Financial Statements

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$132,305, \$130,673 and \$121,003, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description

The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 27 active members and 5 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a partially self-funded plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy

The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$460 for single coverage and \$1,145 for family coverage. For the year ended June 30, 2014, the City contributed of \$315,344 and plan members eligible for benefits contributed \$42,730 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused compensatory time off, vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. Compensatory time off and vacation benefits are payable in full when used or upon termination, retirement or death. Sick leave hours are payable in full when used, while the amount payable upon retirement or death is 20% of accumulated hours at the current hourly rate. Additionally, an employee may apply unused sick leave to pay health insurance premiums upon retirement.

These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate maximum liability for earned compensatory time off, vacation and sick leave (including related fringe benefits) payable to employees as of June 30, 2014, primarily relating to the General Fund was as follows:

Notes to the Financial Statements

(6) Compensated Absences

Type of Benefit	Amount
Compensatory time off	\$ 27,698
Vacation	118,969
Sick leave	<u>543,704</u>
Total	<u>\$ 690,371</u>

This liability has been computed based on rates of pay as of June 30, 2014 and includes a 46.21% fringe benefits factor.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer To	Transfer From	Amount
General	Enterprise	
	Water	\$ 1,000
	Sewer	1,000
	Special Revenue	
	Local Option Revenue	342,615
	Expendable Trust	<u>15,966</u>
		<u>360,581</u>
Capital Projects	Capital Projects	
Street Assessment Project	2nd Avenue Reconstruction	<u>100,075</u>
Capital Projects	Debt Service	
Water Main Looping Project	Enterprise	1,434
	Water	<u>21,411</u>
		<u>22,845</u>
Enterprise	General	
Water		<u>9,983</u>
Special Revenue	General	
Expendable Trust		<u>30,000</u>
Debt Service	General	21,425
	Special Revenue	
	Local Option Revenue	38,068
	Enterprise	
	Municipal Sanitary Sewer Utility and	
	Water Utility Capital Improvements	17,853
	Water	<u>11,731</u>
		<u>89,077</u>
Total		<u>\$ 612,561</u>

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

Notes to the Financial Statements

(8) Risk Management

The City of Cresco is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Commitments

As of June 30, 2014, the City had entered into various contracts and agreements with remaining commitments totaling approximately \$2,505,000 for road improvements and approximately \$58,500 for sandblasting and painting the clarifiers at the waste water treatment plant.

(10) Related Party Transactions

The City had business transactions between the City and City officials totaling \$7,933 during the year ended June 30, 2014.

(11) Subsequent Events

Management has evaluated subsequent events through October 15, 2014, the date which the financial statements were available to be issued.

The City issued \$2,950,000 General Obligation Capital Loan Notes on July 8, 2014. The City received \$30,000, a good faith deposit, prior to June 30, 2014 related to the issue.

(12) Prospective Accounting Change

The Governmental Accounting Standard Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27*. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

Other Information

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

Year Ended June 30, 2014

	Governmental Funds - Actual	Proprietary Funds - Actual	Less Funds Not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Receipts							
Property tax.....	\$ 1,774,897	\$ —	\$ —	\$ 1,774,897	\$ 1,766,416	\$ 1,766,416	\$ 8,481
Other city tax.....	453,570	—	—	453,570	494,157	460,157	(6,587)
Licenses and permits.....	50,411	—	—	50,411	13,700	13,700	36,711
Use of money and property.....	66,464	2,147	62	68,549	58,919	67,871	678
Intergovernmental.....	506,403	—	—	506,403	447,570	505,020	1,383
Charges for service.....	957,817	1,280,867	—	2,238,684	2,233,300	2,238,200	484
Special assessments.....	21,380	—	—	21,380	—	25,000	(3,620)
Miscellaneous.....	204,113	77,619	35,817	245,915	176,632	251,071	(5,156)
Total Receipts	4,035,055	1,360,633	35,879	5,359,809	5,190,694	5,327,435	32,374
Disbursements							
Public safety.....	875,373	—	—	875,373	941,760	961,560	86,187
Public works.....	1,190,197	—	—	1,190,197	1,191,275	1,239,275	49,078
Health and social services.....	4,151	—	—	4,151	4,500	4,500	349
Culture and recreation.....	1,078,009	—	—	1,078,009	1,048,380	1,138,080	60,071
Community and economic development.....	146,709	—	—	146,709	130,800	164,500	17,791
General government.....	305,992	29,500	29,500	305,992	362,050	346,050	40,058
Debt service.....	387,129	—	—	387,129	390,500	390,500	3,371
Capital projects.....	215,228	—	—	215,228	167,000	241,000	25,772
Business-type activities.....	—	1,201,290	—	1,201,290	1,263,750	1,406,750	205,460
Total Disbursements	4,202,788	1,230,790	29,500	5,404,078	5,500,015	5,892,215	488,137
Receipts Over (Under) Disbursements	(167,733)	129,843	6,379	(44,269)	(309,321)	(564,780)	520,511
Other Financing Sources (Uses), Net	80,513	(43,012)	—	37,501	10,500	10,500	27,001
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(87,220)	86,831	6,379	(6,768)	(298,821)	(554,280)	547,512
Balances - Beginning of Year.....	3,873,979	2,029,759	57,332	5,846,406	5,240,815	5,240,815	605,591
Balances - End of Year	\$ 3,786,759	\$ 2,116,590	\$ 63,711	\$ 5,839,638	\$ 4,941,994	\$ 4,686,535	\$ 1,153,103

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business-type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, three budget amendments increased budgeted disbursements by \$553,200. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements did not exceed the amounts budgeted.

Supplementary Information

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

As of and for the Year Ended June 30, 2014

	Special Revenue				Capital Projects				Debt Service	Total
	Local Option Revenue	Urban Renewal T.I.F. Area	CIDC Revolving Loan	Expendable Trust	2nd Avenue Reconstruction	Water Main Looping Project	Fit for Life Project	Street Assessment Project		
Receipts										
Property tax	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 295,463	\$ 295,463
Other city tax	380,683	—	—	—	—	—	—	—	5,828	386,511
Use of money and property	—	30	5,802	507	50	5	2	19	344	6,759
Intergovernmental	—	—	—	14,222	—	—	—	—	—	14,222
Charges for service	—	—	—	1,481	—	—	—	—	—	1,481
Special assessments	—	—	—	—	529	—	—	20,851	—	21,380
Miscellaneous	—	—	30,972	37,778	—	—	16,235	—	—	84,985
Total Receipts	380,683	30	36,774	53,988	579	5	16,237	20,870	301,635	810,801
Disbursements										
Operating										
Public safety	—	—	—	3,000	—	—	—	—	—	3,000
Culture and recreation	—	—	—	71,283	—	—	—	—	—	71,283
Community and economic development	—	38,742	30,092	23,834	—	—	—	—	—	92,668
Debt service	—	—	—	—	—	—	—	—	387,129	387,129
Capital projects	—	—	—	—	—	61,405	25,479	128,344	—	215,228
Total Disbursements	—	38,742	30,092	98,117	—	61,405	25,479	128,344	387,129	769,308
Receipts Over (Under) Disbursements	380,683	(38,712)	6,682	(44,129)	579	(61,400)	(9,242)	(107,474)	(85,494)	41,493
Other Financing Sources (Uses)										
General obligation note proceeds	—	—	—	—	—	—	—	30,000	—	30,000
Transfers in	—	—	—	30,000	—	22,845	—	100,075	89,077	241,997
Transfers out	(380,683)	—	—	(15,966)	(100,075)	—	—	—	(1,434)	(498,158)
Total Other Financing Sources (Uses)	(380,683)	—	—	14,034	(100,075)	22,845	—	130,075	87,643	(226,161)
Change in in Cash Balances	—	(38,712)	6,682	(30,095)	(99,496)	(38,555)	(9,242)	22,601	2,149	(184,668)
Cash Balances - Beginning of Year	—	38,712	36,748	391,910	99,496	38,555	9,242	—	233,167	847,830
Cash Balances - End of Year	\$ —	\$ —	\$ 43,430	\$ 361,815	\$ —	\$ —	\$ —	\$ 22,601	\$ 235,316	\$ 663,162
Cash Basis Fund Balances										
Restricted for										
Fire equipment	\$ —	\$ —	\$ —	\$ 151,886	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 151,886
Equipment repair - fitness	—	—	—	70,676	—	—	—	—	—	70,676
CDIC revolving loan	—	—	43,430	—	—	—	—	—	—	43,430
Debt service	—	—	—	—	—	—	—	—	235,316	235,316
Library	—	—	—	42,887	—	—	—	—	—	42,887
Other purposes	—	—	—	26,366	—	—	—	22,601	—	48,967
Committed to airpacks and turnout gear	—	—	—	70,000	—	—	—	—	—	70,000
Total Cash Basis Fund Balances	\$ —	\$ —	\$ 43,430	\$ 361,815	\$ —	\$ —	\$ —	\$ 22,601	\$ 235,316	\$ 663,162

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

As of and for the Year Ended June 30, 2014

	Enterprise		Total
	Municipal Sanitary Sewer Utility and Water Utility Capital Improvements	Yard Waste and Recycling	
Operating Revenue			
Charges for service	\$ 45,552	\$ 38,943	\$ 84,495
Operating Disbursements			
Business-type activities	<u>35,109</u>	<u>24,069</u>	<u>59,178</u>
Operating Receipts Over Operating Disbursements	10,443	14,874	25,317
Nonoperating Receipts			
Interest on investments	<u>296</u>	<u>93</u>	<u>389</u>
Excess of Receipts Over Disbursements	10,739	14,967	25,706
Other Financing Uses			
Transfers out	<u>(17,853)</u>	<u>—</u>	<u>(17,853)</u>
Change in Cash Balances	(7,114)	14,967	7,853
Cash Balances - Beginning of Year	<u>298,823</u>	<u>84,973</u>	<u>383,796</u>
Cash Balances - End of Year	<u>\$ 291,709</u>	<u>\$ 99,940</u>	<u>\$ 391,649</u>
Cash Basis Fund Balances			
Unrestricted	<u>\$ 291,709</u>	<u>\$ 99,940</u>	<u>\$ 391,649</u>

Schedule of Indebtedness

Year Ended June 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
General Obligation Notes							
Capital Loan Notes							
Series 2001B	8-1-01	3.00%	\$ 253,000	\$ 125,000	\$ 13,000	\$ 112,000	\$ 2,188
Series 2010.....	11-15-10	1.60 - 3.75	1,050,000	810,000	125,000	685,000	19,250
Series 2014.....	3-6-13	0.50 - 1.85	1,700,000	<u>1,700,000</u>	<u>205,000</u>	<u>1,495,000</u>	<u>20,778</u>
Total General Obligation Notes				<u>\$ 2,635,000</u>	<u>\$ 343,000</u>	<u>\$ 2,292,000</u>	<u>\$ 42,216</u>
Sewer Revenue Capital Loan Notes							
Series 2001	8-1-01	3.00%	\$ 600,000	\$ 302,000	\$ 32,000	\$ 270,000	\$ 5,285
Series 2011	6-8-11	3.00	500,000*	<u>428,000</u>	<u>18,000</u>	<u>410,000</u>	<u>12,840</u>
Total Sewer Revenue Capital Loan Notes.....				<u>\$ 730,000</u>	<u>\$ 50,000</u>	<u>\$ 680,000</u>	<u>\$ 18,125</u>

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

Schedule of Note Maturities

As of June 30, 2014

Year Ending June 30,	General Obligation Notes						Total
	Capital Loan Notes						
	Series 2001B		Series 2010		Series 2013		
	Issued August 1, 2001		Issued Nov. 15, 2010		Issued March 6, 2013		
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2015	3.00%	\$ 14,000	1.60%	\$ 125,000	0.50%	\$ 210,000	\$ 349,000
2016	3.00	15,000	1.90	130,000	0.60	215,000	360,000
2017	3.00	15,000	2.50	60,000	0.75	210,000	285,000
2018	3.00	16,000	2.50	60,000	0.90	125,000	201,000
2019	3.00	17,000	2.50	60,000	1.10	125,000	202,000
2020	3.00	17,000	3.10	65,000	1.25	125,000	207,000
2021	3.00	18,000	3.10	65,000	1.40	125,000	208,000
2022		—	3.75	20,000	1.55	130,000	150,000
2023		—	3.75	25,000	1.70	130,000	155,000
2024		—	3.75	25,000	1.85	100,000	125,000
2025		—	3.75	25,000		—	25,000
2026		—	3.75	25,000		—	25,000
Total		\$ 112,000		\$ 685,000		\$ 1,495,000	\$ 2,292,000

Year Ending June 30,	Sewer Revenue				Total
	Capital Loan Notes				
	Issued August 1, 2001		Issued June 8, 2011		
Interest Rates	Amount	Interest Rates	Amount		
2015	3.00%	\$ 34,000	3.00%	\$ 18,000	\$ 52,000
2016	3.00	35,000	3.00	19,000	54,000
2017	3.00	37,000	3.00	20,000	57,000
2018	3.00	38,000	3.00	20,000	58,000
2019	3.00	40,000	3.00	21,000	61,000
2020	3.00	42,000	3.00	22,000	64,000
2021	3.00	44,000	3.00	22,000	66,000
2022		—	3.00	23,000	23,000
2023		—	3.00	24,000	24,000
2024		—	3.00	25,000	25,000
2025		—	3.00	25,000	25,000
2026		—	3.00	26,000	26,000
2027		—	3.00	27,000	27,000
2028		—	3.00	28,000	28,000
2029		—	3.00	29,000	29,000
2030		—	3.00	30,000	30,000
2031		—	3.00	31,000	31,000
Total		\$ 270,000		\$ 410,000	\$ 680,000

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

For the Last Ten Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Receipts										
Property tax.....	\$ 1,774,897	\$ 1,737,623	\$ 1,804,372	\$ 1,623,593	\$ 1,574,522	\$ 1,500,615	\$ 1,496,480	\$ 1,300,355	\$ 1,218,728	\$ 1,254,449
Tax increment financing	—	39	18,280	19,645	19,427	1,276	129,468	297,248	476,662	352,806
Other city tax	453,570	473,002	453,558	434,642	406,618	425,758	373,542	363,312	326,821	280,733
Licenses and permits.....	50,411	13,396	13,161	12,367	12,593	12,475	13,536	13,740	14,739	14,931
Use of money and property	66,464	56,400	60,614	82,522	87,950	91,424	136,944	107,094	82,320	59,135
Intergovernmental	506,403	510,964	769,610	469,936	428,138	681,859	1,351,428	784,852	400,676	432,214
Charges for service	957,817	991,696	940,448	930,141	891,148	884,095	871,211	846,977	830,777	830,207
Special assessments.....	21,380	36,282	102,024	947	1,168	1,442	1,435	2,281	13,269	18,818
Miscellaneous.....	204,113	187,892	150,093	197,656	157,287	216,808	136,971	149,997	291,877	125,697
Total Receipts.....	\$ 4,035,055	\$ 4,007,294	\$ 4,312,160	\$ 3,771,449	\$ 3,578,851	\$ 3,815,752	\$ 4,511,015	\$ 3,865,856	\$ 3,655,869	\$ 3,368,990
Disbursements										
Operating										
Public safety.....	\$ 875,373	\$ 859,182	\$ 774,664	\$ 742,033	\$ 658,589	\$ 670,862	\$ 637,709	\$ 629,691	\$ 631,399	\$ 752,035
Public works.....	1,190,197	1,198,791	1,152,241	1,343,542	993,547	1,048,598	997,573	1,057,308	935,299	961,408
Health and social services.....	4,151	3,929	1,000	6,858	3,929	3,929	3,929	3,929	2,953	2,952
Culture and recreation.....	1,078,009	1,047,886	995,603	1,010,385	897,248	931,256	958,363	888,419	995,473	802,011
Community and economic development.....	146,709	274,145	171,021	138,720	117,753	405,374	608,006	533,219	211,124	481,581
General government	305,992	301,425	294,583	297,800	247,610	251,369	232,533	220,785	281,937	223,228
Debt service	387,129	1,573,696	343,687	246,775	268,654	271,216	357,027	335,041	644,290	558,279
Capital projects.....	215,228	405,829	949,126	191,464	319,213	937,722	883,829	258,537	514	12,253
Total Disbursements.....	\$ 4,202,788	\$ 5,664,883	\$ 4,681,925	\$ 3,977,577	\$ 3,506,543	\$ 4,520,326	\$ 4,678,969	\$ 3,926,929	\$ 3,702,989	\$ 3,793,747

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Certified Public Accountants and Consultants

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 Cresco, 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* issued 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 the City of Cresco, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents, and have issued our report thereon dated October 15, 2014. 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 accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Cresco'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 the City of Cresco's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Cresco's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cresco's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance or other matters which is described in Part II of the accompanying schedule of findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory or other legal matters are not intended to constitute legal interpretations of those statutes.

City of Cresco's Response to the Finding

The City of Cresco's response to the finding identified in our audit is described in the accompanying schedule of findings. The City of Cresco'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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
October 15, 2014

Schedule of Findings

Year Ended June 30, 2014

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

There were no current year instances of noncompliance noted.

Internal Control Deficiencies

There were no current year matters reported.

Part II: Other Findings Related to Statutory Reporting:

- 14-II-A Certified Budget** - Disbursements during the year ended June 30, 2014 did not exceed the amounts budgeted.
- 14-II-B Questionable Disbursements** - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 14-II-C Travel Expense** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 14-II-D Business Transactions** - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
John Loveless, Council member, part owner of Cresco Shopper	Advertising and supplies	\$ 2,296
Jeffrey Holmstrom, volunteer fireman, owner of Computer Professionals Unlimited	Computer repair, maintenance and supplies	4,005
Steve McCarville, Council member, owner of Campsite RV	LP tank fill and chip sealing	1,632

In accordance with Chapter 362.5 of the Code of Iowa, the transactions with Council member Loveless, volunteer fireman Holmstrom and Council member McCarville may represent conflicts of interest since a competitive bidding process was not utilized and the total of the transactions were in excess of \$1,500.

Auditor's Recommendation - The City should use a competitive bidding process when practicable.

City's Response - The transactions were normal expenses (repairs, maintenance, advertising and supply costs). A competitive bidding process is not always practical, however, we will endeavor to competitively bid the work when practicable in the future.

Auditor's Conclusion - Response accepted.

Schedule of Findings

Year Ended June 30, 2014

- 14-II-E Bond Coverage** - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 14-II-F Council Minutes** - No transactions were found that we believe should have been approved in the City Council minutes but were not.
- 14-II-G Deposits and Investments** - We noted no instances of noncompliance with deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- 14-II-H Revenue Notes** - No instances of noncompliance with the revenue note resolutions were noted.
- 14-II-I Urban Renewal Annual Report** - The urban renewal annual report was approved and certified to the Iowa Department of Management on or before December 1.