

CITY OF CRESTON, IOWA

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

Year Ended June 30, 2009

CITY OF CRESTON, IOWA  
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CITY OF CRESTON, IOWA  
CITY OFFICIALS  
June 30, 2009

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Warren Woods	Mayor	January 1, 2012
Larry Wynn	Council Member	January 1, 2012
Larry Wagner	Council Member	January 1, 2010
Randy White	Council Member	January 1, 2010
Terri Koets	Council Member	January 1, 2010
Loyal Winborn	Council Member	January 1, 2012
Betty Shelton	Council Member	January 1, 2010
Marsha Wilson	Council Member	January 1, 2012
Michael Taylor	City Administrator	---
Lisa Williamson	City Clerk	January 1, 2010
Arnold O. Kenyon, III	City Attorney	January 1, 2010

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements, of the governmental activities, the business type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Creston, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Creston, Iowa's officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Creston, Iowa, as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

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

In accordance with Government Auditing Standards, we have also issued our report dated August 28, 2009, on our consideration of City of Creston, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 27 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Creston, Iowa's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Drapen, Smidgrasso, Mickelson & Co., P.C.*

August 28, 2009

## **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, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **Financial Highlights**

Government Activities total revenues increased by \$824,515 from the previous fiscal year. Tax increment financing collections, Intergovernmental, Charges for Services, Other City Taxes, License and Permits, and Miscellaneous Revenue all increased. Use of Money and Property decreased by \$88,737.

Government Activities total expenditures increased by \$86,199. Public Safety, Public Works, and Community/Recreation Development increased. Public Safety increased by \$566,621 because of the purchase of a new ladder fire truck. The Culture and Recreation activity decreased by \$345,670 and General Government decreased by \$208,702.

The City's total cash basis net assets increased by \$431,246. The Debt Service Fund balance increased to \$17,768 and other non-major governmental funds increased by \$348,295. The Employee Benefits Fund had a decrease of \$181,694. The Road Use Fund showed a decrease of \$60,742. The Road Use Fund continues to receive some financial assistance, as does the Sewer Fund, due to the passage of the Local Option Sales Tax, which enabled the City to finance street and sewer repair projects. Local Option Sales Tax collections amounted to \$823,589. Anticipated Local Option Sales Tax Receipts for the following 12 months are estimated to be \$770,000. 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.

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

## **Basis of Accounting**

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

## **Reporting the City as a Whole**

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

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

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

## **Fund Financial Statements**

The fund financial statements begin on page 12 and provide detailed information about individual significant funds; not the City as a whole. Some funds are established by State law and by bond covenants. The City can establish other funds to help it control and manage money for particular purposes.



The City has two kinds of funds:

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

### **Government-Wide Financial Analysis**

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

### **Government Activities**

The City's cash balance for governmental activities increased from a year ago, by \$431,246. The analysis below focuses on this change in cash balance and changes in receipts and disbursements from the prior year.

## Change in Cash Balance of Governmental Activities

	<u>2009</u>	<u>2008</u>
Receipts and transfers:		
Program receipts:		
Charges for services and sales	\$ 754,752	\$ 728,682
Intergovernmental revenues	1,877,398	1,604,264
General receipts:		
Property tax	1,834,171	1,610,447
Tax incremental financing collections	570,169	377,466
Other city tax	938,578	930,308
Licenses and permits	53,262	35,096
Use of money and property	220,911	309,648
Special assessments	3,202	---
Bond and short term debt proceeds	---	495,000
Other general receipts	574,130	406,147
Transfers-in	<u>2,159,880</u>	<u>1,091,568</u>
Total receipts and transfers	<u>\$ 8,986,453</u>	<u>\$ 7,588,626</u>
Disbursements:		
Public safety	\$ 1,935,678	\$ 1,369,057
Public works	1,710,960	1,550,531
Health and social services	---	---
Culture and recreation	709,738	1,055,408
Community and economic development	45,807	29,577
General government	1,609,437	1,818,139
Debt service	1,060,991	1,137,048
Capital projects	12,676	39,328
Bonds redeemed, refinanced	---	1,795,000
Transfers-out	<u>1,469,920</u>	<u>1,052,258</u>
Total disbursements and transfers	<u>\$ 8,555,207</u>	<u>\$ 9,846,346</u>
Increase (decrease) in cash balance	\$ 431,246	\$(2,257,720)
Cash balance, beginning of fiscal year	<u>3,154,509</u>	<u>5,412,229</u>
Cash balance, end of fiscal year	<u>\$ 3,585,755</u>	<u>\$3,154,509</u>

The City's total receipts for governmental activities increased by twelve percent (12%) or \$824,515. The total cost of all programs and services increased by approximately one point two percent (1.2%) or \$86,199, with no new programs added this year. The increase in receipts was due to increase TIF revenue, intergovernmental revenue and miscellaneous revenue. The increase in expenditures was due to public safety, public works and community/economic development.

The City increased the property tax rates in 2009 by approximately five percent (5%). The property tax rate is expected to increase by sixteen percent (16%) for the 2010 fiscal year.

The cost of all governmental activities this year was \$8,555,207 compared to \$9,846,346 last year. The General Fund showed a decrease of \$272,382 from the previous fiscal year.

#### Business Type Activities

	<u>2009</u>	<u>2008</u>
Receipts		
Program receipts:		
Charges for services and sales	\$ 1,349,503	\$1,125,082
Miscellaneous revenues	402,817	24,496
Bond proceeds	329,500	2,291,580
Transfers in	<u>166,735</u>	<u>143,000</u>
Total revenues	<u>\$ 2,248,555</u>	<u>\$3,584,158</u>
Disbursements and transfers:		
Personal services	\$ 326,322	\$ 312,971
Services and commodities	2,592,443	441,190
Capital outlay	573,797	129,586
Transfers out	<u>856,695</u>	<u>182,310</u>
Total disbursements and transfers	<u>\$ 4,349,257</u>	<u>\$1,066,057</u>
Increase (decrease) in cash balance	\$(2,100,702)	\$2,518,101
Cash balance, beginning of fiscal year	<u>3,177,036</u>	<u>658,935</u>
Cash balance, end of fiscal year	<u>\$1,076,334</u>	<u>\$3,177,036</u>

Total business-type activity receipts for the fiscal year were \$2,248,555 compared to \$3,584,158 last fiscal year. The revenue decrease was due primarily to bond revenue during the fiscal year.

The cash balance decreased by approximately \$2,100,702 because payment was made to the State of Iowa for Highway 34 sewer improvements. Revenue received but not expensed in 2008.

#### **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 \$1,086,929, a decrease of \$272,382.

The Road Use Tax Fund cash balance decreased from \$386,779 to \$326,067, during the fiscal year. The fund decreased because we were able to complete some street repairs that were planned for the previous year, storm damage repairs and less income received from the state.

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 reduction of \$181,694 during the fiscal year. The reduction is due to increased cost.

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 \$1,505,274 from other funds to make payments for these obligations. The fund showed a gain of \$472,148 for the fiscal year just completed and has a fund balance of \$17,768.

## **Proprietary Funds**

The cash balance of the Sewer Fund decreased by \$2,100,702, due to bond revenue being expensed. The City is under an administrative order from the Iowa Department of Natural Resources to address the issue of inflow and infiltration and has an ongoing program in place. The distribution of Local Option Sales Tax dollars into the Sewer Fund to address the inflow and infiltration order will allow for annual capital improvement projects to continue.

## **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 once. The amendment was approved on May 19, 2009 and resulted in an increase in operating disbursements related to a budget overrun of \$3,438,851 in various departmental budgets due primarily to sewer repair projects, purchase of capital equipment and maintenance and utility charges. The amendment also included a projected increase in revenues of \$2,037,654 primarily consists of receipt of general obligation loan funds and grants.

Even with this amendment, the City exceeded the budget for the Community and Economic Development.

## **Debt Administration**

At year-end, the City had \$6,522,157 in bonds and other long-term debt compared to \$6,994,454 year as shown below.

### **Outstanding Debt at Year End**

	<u>2009</u>	<u>2008</u>
Refunding bond – GO bonds callable in June 1, 2008	\$1,590,000	\$1,720,000
General Obligation Capital Loan Note, Series 2007	200,000	295,000
General Obligation Capital Loan Note, Series 2008	2,340,000	2,530,000
State Revolving Fund Wastewater Bonds	1,990,000	2,200,000
Fire truck loan	---	10,000
Iowa Department of Transportation – no interest loan	101,128	202,254
Park Maintenance Building Loan	18,600	37,200
Sewer Jet Truck	<u>282,429</u>	<u>---</u>
Total	<u>\$6,522,157</u>	<u>\$6,994,454</u>

The Park Maintenance Building Loan will be repaid by use of Hotel and Motel Tax and will not cause an increase in future property tax levies. The City Debt Service Levy for the fiscal year ending June 30, 2009 was only \$28,233, Local Option Sales Tax receipts were used for property tax relief and reduced this tax.

The City's general obligation rating continues to be strong. The 1999 bond issue was rated AAA and a rating of A3 was given on both the 1986 and 1993 bond issues. The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to five percent (5%) of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$4,130,000 is well below the City's \$14,801,724 legal debt limit.

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

## **Economic Factors and Next Year's Budget and Rates**

The City's elected and appointed officials and citizens considered many factors when setting the 2010 fiscal year budget, tax rates, and fees that will be charged for various City activities. In addition, return on investments, fuel costs, and the costs of employee benefits are primary concerns in setting a budget.

These factors all contributed when adopting the fiscal year 2010 budget. Amounts available for appropriations in the budget are \$21,457,918. This amount includes all Business Type Activities, including the Sewer and Water Department expenditures. Steps implemented by the City, including the careful utilization of Local Option Sales Tax receipts, increasing certain fees, transferring costs across funds, and reducing the costs of the delivery of services allowed the City to draw down on fund balances in the fiscal year 2009 budget. The property tax rate of \$13.85729 for the fiscal year ending June 30, 2010 is a 16% increase from the current fiscal year.

### **Contacting the City's Financial Management**

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

## FINANCIAL STATEMENTS

CITY OF CRESTON, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
As of and for the Year Ended June 30, 2009

Exhibit A

		PROGRAM RECEIPTS		
		Charges For	Operating Grants	Capital Grants
	Disbursements	Services	Contributions, and Restricted Interest	Contributions and Restricted Interest
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$ 1,935,678	\$ 238,737	\$ 3,897	\$ 283,545
Public works	1,710,960	698,507	686,920	192,054
Health and social services	-	-	-	-
Culture and recreation	709,738	124,442	338,348	-
Community/economic development	45,807	-	-	-
General government	1,609,437	345,535	157,897	-
Debt service	1,060,991	-	-	-
Capital projects	12,676	-	-	99,402
Total governmental activities	<u>\$ 7,085,287</u>	<u>\$ 1,407,221</u>	<u>\$ 1,187,062</u>	<u>\$ 575,001</u>
Business type activities:				
Sewer	\$ 3,492,562	\$ 1,357,891	\$ -	\$ 363,919
Total business type activities	<u>\$ 3,492,562</u>	<u>\$ 1,357,891</u>	<u>\$ -</u>	<u>\$ 363,919</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 10,577,849</u>	<u>\$ 2,765,112</u>	<u>\$ 1,187,062</u>	<u>\$ 938,920</u>
COMPONENT UNIT:				
Water Works	<u>\$ 4,738,041</u>	<u>\$ 3,735,230</u>	<u>\$ -</u>	<u>\$ 947,654</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				
Streets				
Employee benefits				
Local option sales tax				
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
\$ (1,409,499)	\$ -	\$ (1,409,499)	\$ -
(133,479)	-	(133,479)	-
-	-	-	-
(246,948)	-	(246,948)	-
(45,807)	-	(45,807)	-
(1,106,005)	-	(1,106,005)	-
(1,060,991)	-	(1,060,991)	-
86,726	-	86,726	-
<u>\$ (3,916,003)</u>	<u>\$ -</u>	<u>\$ (3,916,003)</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ (1,770,752)</u>	<u>\$ (1,770,752)</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ (1,770,752)</u>	<u>\$ (1,770,752)</u>	<u>\$ -</u>
<u>\$ (3,916,003)</u>	<u>\$ (1,770,752)</u>	<u>\$ (5,686,755)</u>	<u>\$ -</u>
			<u>\$ (55,157)</u>
\$ 1,809,508	\$ -	\$ 1,809,508	\$ -
570,169	-	570,169	-
27,865	-	27,865	-
114,989	-	114,989	-
823,589	-	823,589	-
9,922	-	9,922	-
137,984	-	137,984	125,243
-	329,500	329,500	-
125,830	-	125,830	124,506
37,433	30,510	67,943	-
689,960	(689,960)	-	-
<u>\$ 4,347,249</u>	<u>\$ (329,950)</u>	<u>\$ 4,017,299</u>	<u>\$ 249,749</u>
<u>\$ 431,246</u>	<u>\$ (2,100,702)</u>	<u>\$ (1,669,456)</u>	<u>\$ 194,592</u>
<u>3,154,509</u>	<u>3,177,036</u>	<u>6,331,545</u>	<u>3,340,623</u>
<u><u>\$ 3,585,755</u></u>	<u><u>\$ 1,076,334</u></u>	<u><u>\$ 4,662,089</u></u>	<u><u>\$ 3,535,215</u></u>
\$ 326,037	\$ -	\$ 326,037	
294,454	-	294,454	
746,671	-	746,671	
17,768	75,967	93,735	
1,113,896	742,395	1,856,291	
1,086,929	257,972	1,344,901	
<u><u>\$ 3,585,755</u></u>	<u><u>\$ 1,076,334</u></u>	<u><u>\$ 4,662,089</u></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, 2009

Exhibit B

		SPECIAL REVENUE	
	General	Road Use Tax	Employee Benefits
RECEIPTS:			
Property taxes	\$ 1,316,247	\$ -	\$ 238,234
Tax increment financing collections	-	-	-
Other city taxes	114,989	-	-
Licenses and permits	53,262	-	-
Use of money and property	213,656	400	-
Intergovernmental	922,983	661,956	196,057
Charges for service	749,832	4,920	-
Special assessments	3,202	-	-
Miscellaneous	144,120	10,727	135,573
Total receipts	<u>\$ 3,518,291</u>	<u>\$ 678,003</u>	<u>\$ 569,864</u>
DISBURSEMENTS:			
Operating:			
Public safety	\$ 1,817,707	\$ -	\$ -
Public works	972,215	738,745	-
Health and social services	-	-	-
Culture and recreation	586,095	-	-
Community/economic development	33,883	-	-
General government	835,521	-	773,916
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>\$ 4,245,421</u>	<u>\$ 738,745</u>	<u>\$ 773,916</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>\$ (727,130)</u>	<u>\$ (60,742)</u>	<u>\$ (204,052)</u>
OTHER FINANCING SOURCES (USES):			
Bond proceeds	\$ -	\$ -	\$ -
Operating transfers in	575,040	-	22,358
Operating transfers out	(120,302)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 454,738</u>	<u>\$ -</u>	<u>\$ 22,358</u>
NET CHANGE IN CASH BALANCES	<u>\$ (272,392)</u>	<u>\$ (60,742)</u>	<u>\$ (181,694)</u>
CASH BALANCES, BEGINNING OF YEAR	<u>1,359,311</u>	<u>386,779</u>	<u>476,148</u>
CASH BALANCES, END OF YEAR	<u><u>\$ 1,086,919</u></u>	<u><u>\$ 326,037</u></u>	<u><u>\$ 294,454</u></u>
CASH BASIS FUND BALANCES:			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	1,086,919	-	-
Special revenue funds	-	326,037	294,454
Capital projects fund	-	-	-
Permanent fund	-	-	-
TOTAL CASH BASIS FUND BALANCES	<u><u>\$ 1,086,919</u></u>	<u><u>\$ 326,037</u></u>	<u><u>\$ 294,454</u></u>

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

SPECIAL REVENUE		Debt Service	Other Nonmajor Governmental Funds	Total
Urban Renewal Tax Increment	Local Option Sales Tax			
\$ -	\$ -	\$ 27,865	\$ 251,825	\$ 1,834,171
570,169	-	-	-	570,169
-	823,589	-	-	938,578
-	-	-	-	53,262
-	-	-	6,855	220,911
-	-	-	96,402	1,877,398
-	-	-	-	754,752
-	-	-	-	3,202
-	-	-	283,710	574,130
<u>\$ 570,169</u>	<u>\$ 823,589</u>	<u>\$ 27,865</u>	<u>\$ 638,792</u>	<u>\$ 6,826,573</u>
\$ -	\$ -	\$ -	\$ 117,971	\$ 1,935,678
-	-	-	-	1,710,960
-	-	-	-	-
-	-	-	123,643	709,738
11,924	-	-	-	45,807
-	-	-	-	1,609,437
-	-	1,060,991	-	1,060,991
-	-	-	12,676	12,676
<u>\$ 11,924</u>	<u>\$ -</u>	<u>\$ 1,060,991</u>	<u>\$ 254,290</u>	<u>\$ 7,085,287</u>
<u>\$ 558,245</u>	<u>\$ 823,589</u>	<u>\$ (1,033,126)</u>	<u>\$ 384,502</u>	<u>\$ (258,714)</u>
\$ -	\$ -	\$ -	\$ -	\$ -
51,906	-	1,505,274	5,312	2,159,890
(595,525)	(712,594)	-	(41,509)	(1,469,930)
<u>\$ (543,619)</u>	<u>\$ (712,594)</u>	<u>\$ 1,505,274</u>	<u>\$ (36,197)</u>	<u>\$ 689,960</u>
\$ 14,626	\$ 110,995	\$ 472,148	\$ 348,305	\$ 431,246
191,700	635,676	(454,380)	559,275	3,154,509
<u>\$ 206,326</u>	<u>\$ 746,671</u>	<u>\$ 17,768</u>	<u>\$ 907,580</u>	<u>\$ 3,585,755</u>
\$ -	\$ -	\$ 17,768	\$ -	\$ 17,768
-	-	-	-	1,086,919
206,326	746,671	-	567,853	2,141,341
-	-	-	109,590	109,590
-	-	-	230,137	230,137
<u>\$ 206,326</u>	<u>\$ 746,671</u>	<u>\$ 17,768</u>	<u>\$ 907,580</u>	<u>\$ 3,585,755</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, 2009

	Exhibit C
	Enterprise Fund
	<u>Sewer</u>
OPERATING RECEIPTS:	
Charge for service	\$ 1,349,503
Total operating receipts	<u>\$ 1,349,503</u>
OPERATING DISBURSEMENTS:	
Business type activities	\$ 3,492,562
Total operating disbursements	<u>\$ 3,492,562</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>\$ (2,143,059)</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):	
Intergovernmental	\$ 363,919
Uses of money and property	30,510
Miscellaneous	8,388
Debt service	-
Total non-operating receipts (disbursements)	<u>\$ 402,817</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>\$ (1,740,242)</u>
OTHER FINANCING SOURCES (USES):	
Bond proceeds	\$ 329,500
Operating transfers in	166,735
Operating transfers out	(856,695)
Total other financing sources (uses)	<u>\$ (360,460)</u>
NET CHANGE IN CASH BALANCES	\$ (2,100,702)
CASH BALANCES, BEGINNING OF YEAR	<u>3,177,036</u>
CASH BALANCES, END OF YEAR	<u><u>\$ 1,076,334</u></u>
CASH BASIS FUND BALANCES:	
Reserved for debt service	\$ 75,967
Reserved for capital replacement	649,835
Reserved for storm water	92,560
Unreserved	257,972
Total cash basis fund balances	<u><u>\$ 1,076,334</u></u>

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

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

Note 1. Summary of Significant Accounting Policies

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

Reporting Entity

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

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

Discretely Presented Component Unit

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

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

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 two categories:

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 that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

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

The City reports the following major governmental funds:

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

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.

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

Note 1. Summary of Significant Accounting Policies (continued)

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.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the community and economic development and business type activities functions prior to amendment and in the community and economic development function after amendments.

Note 2. Deposits and Investments

The City's deposits at June 30, 2009, 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.

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, 2009, 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:



CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

Note 3. Bonds Payable and Other Debt (continued)

Year Ending June 30,	Principal		
	General Obligation Capital Loan Notes	Other Debt	Total
2010	\$ 435,000	\$ 386,799	\$ 821,799
2011	450,000	277,071	727,071
2012	360,000	287,071	647,071
2013	375,000	297,072	672,072
2014	385,000	309,072	694,072
2015-2019	2,125,000	835,072	2,960,072
	<u>\$ 4,130,000</u>	<u>\$ 2,392,157</u>	<u>\$ 6,522,157</u>

  

Year Ending June 30,	Interest		
	General Obligation Capital Loan Notes	Other Debt	Total
2010	\$ 144,941	\$ 73,182	\$ 218,123
2011	130,468	63,779	194,247
2012	117,383	54,778	172,161
2013	105,893	45,431	151,324
2014	93,556	35,808	129,364
2015-2019	251,693	51,834	303,527
	<u>\$ 843,934</u>	<u>\$ 324,812</u>	<u>\$ 1,168,746</u>

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.

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

Note 3. Bonds Payable and Other Debt (continued)

- (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, 2009 is \$322,000. The loan bears interest at 3% and interest payments are due June 1 and December 1. Principal payments are due June 1.

On June 10, 1997, the City entered into a note agreement with a financial institution for a second State Revolving Funds Loan for additional financing of construction of the sludge lagoon and wastewater treatment plant improvements. The total loan award was for \$2,383,000. The balance at June 30, 2009, is \$1,211,000. The loan bears interest at 3% and interest payments are due June 1 and December 1. Principal payments are due June 1.

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, 2009, is \$457,000. The loan bears interest at 3% and interest payments are due June 1 and December 1. Principal payments are due June 1.

On June 1, 2004, the City entered into a note agreement with a financial institution for the purchase of equipment for \$50,000 at 3.75% interest. Interest payments are due June 4 and December 4. Principal payments are due June 4 beginning June 4, 2005. The balance at June 30, 2009 is \$0.

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

Note 3. Bonds Payable and Other Debt (continued)

On March 11, 2003, the City entered into an agreement with the Iowa Department of Transportation to finance the City's portion of a road reconstruction project. The City's portion is \$303,382 and is to be paid back to the Department of Transportation in three annual installments with no interest charged. The first payment is to be made when billed by the Department of Transportation upon final completion of the project. The first payment is expected to be due in fiscal year ended June 30, 2008. The balance at June 30, 2009 is \$101,128.

On July 22, 2005, the City entered into a note agreement with a financial institution for financing the construction of a park maintenance shed at a cost of \$93,000 at 3.65% interest. Interest payments are due June 1 and December 1. Principal payments are due June 1 beginning June 1, 2006. The balance at June 30, 2009 is \$18,600.

On November 4, 2008, the City entered into a note agreement with a financial institution for financing the cost of a new sewer jet truck at a cost of \$329,500 at 4.45% interest. Interest payments are due June 1 and December 1. Principal payments are due June 1 beginning June 1, 2009. The balance at June 30, 2009 is \$284,429.

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.

Plan members are required to contribute 9.35% 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, 2009, 2008, and 2007 was \$176,552, \$175,536, and \$198,794 respectively, which met the required minimum contribution for each year.

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

Note 4. Pension and Retirement Benefit (continued)

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 4.10% of their annual salary and the City is required to contribute 6.35% 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, 2009, 2008, and 2007 was \$67,230, \$59,109, and \$55,108 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, 2009, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 143,802
Sick leave	<u>388,917</u>
Total	<u>\$ 532,719</u>

This liability has been computed based on rates of pay as of June 30, 2009.

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

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 \$1,299,947 for sewer rental and \$529,152 for garbage collections from the Water Works for the year ended June 30, 2009. The City paid the Water Works \$4,767 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, 2009, the Water Works reimbursed the City \$50,085.

As of June 30, 2009, the Water Works owes the following to the City of Creston:

Sewer rental	\$ 130,451
Garbage collections	<u>39,053</u>
	<u>\$ 169,504</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, 2009, the City was reimbursed \$171,320 from the Water Works for claims and premiums paid on behalf of the Water Works employees.

The City had business transactions between the City and City officials totaling \$15,093 during the year ended June 30, 2009.

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, 2009.

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

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, 2010, for \$32,500. The contractor is responsible for all maintenance, upkeep and repairs of the airport and has the option of operating as a fixed based operator. The City is responsible for providing for utilities for the runway lighting, taxiing, lighted windsock, rotating light beacon, and radio homing beacon and for all parts and repairs necessary for these items. The agreement is for a period of one year.

Self-Funded Health Insurance

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

Environmental Insurance

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

Note 9. Jointly Governed Organizations

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

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

Note 9. Jointly Governed Organizations (continued)

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).

Note 10. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009, is as follows:

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special Revenue:	
	Emergency	\$ 40,815
	Skate Park	2
	Local option sales tax	202,747
	Urban renewal tax	
	Increment	73,761
	Permanent Funds:	
	Cemetery Perpetual Care	692
	Enterprise:	
	Sewer	<u>161,993</u>
		<u>\$ 480,010</u>
Debt service	General	\$ 19,958
	Special revenue:	
	Urban renewal tax	
	increment	521,765
	Local option sales tax	291,207
	Enterprise:	
	Sewer	<u>672,345</u>
		<u>\$1,505,275</u>
Special revenue:		
Library	General	<u>\$ 462</u>
Employee benefits	Enterprise:	
	Sewer	<u>\$ 22,358</u>
Urban Renewal Tax Increment	Special revenue:	
	Local option sales tax	<u>\$ 51,906</u>
Cemetery Betterment	General	<u>\$ 10</u>

CITY OF CRESTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

Note 10. Interfund Transfers (continued)

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
Enterprise:		
Sewer	Special revenue:	
	Local option sales tax	<u>\$ 166,734</u>
Permanent:		
Cemetery perpetual care	General	<u>\$ 4,840</u>
Total		<u>\$2,231,595</u>

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

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 October 23, 2006. Minimum future lease payments are as follows:

<u>Year ending</u> <u>June 30,</u>	
2010	\$3,908
2011	3,908
2012	977

Note 12. Litigation

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

Note 13. Subsequent Events

The July, 2009, the City approved a contract with a contractor for sanitary sewer improvements within the City with a contract amount of \$1,225,183.

In August 2009, the City approved a contract with a contractor for street improvements within the City with a contract amount of \$62,778.

In August 2009, the City approved the issuance of Capital Loan Notes in the amount of \$1,448,000 to finance to sanitary sewer improvements



## 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, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Net
RECEIPTS:			
Property tax	\$ 1,834,171	\$ -	\$ 1,834,171
Tax increment financing collections	570,169	-	570,169
Other city tax	938,578	-	938,578
Licenses and permits	53,262	-	53,262
Use of money and property	220,911	30,510	251,421
Intergovernmental	1,877,398	363,919	2,241,317
Charges for service	754,752	1,349,503	2,104,255
Special assessments	3,202	-	3,202
Miscellaneous	574,130	8,388	582,518
TOTAL RECEIPTS	<u>\$ 6,826,573</u>	<u>\$ 1,752,320</u>	<u>\$ 8,578,893</u>
DISBURSEMENTS:			
Public safety	\$ 1,935,678	\$ -	\$ 1,935,678
Public works	1,710,960	-	1,710,960
Health and social services	-	-	-
Culture and recreation	709,738	-	709,738
Community and economic development	45,807	-	45,807
General government	1,609,437	-	1,609,437
Debt service	1,060,991	-	1,060,991
Capital projects	12,676	-	12,676
Business type activities	-	3,492,562	3,492,562
TOTAL DISBURSEMENTS	<u>\$ 7,085,287</u>	<u>\$ 3,492,562</u>	<u>\$ 10,577,849</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ (258,714)	\$ (1,740,242)	\$ (1,998,956)
OTHER FINANCING SOURCES (USES), NET	<u>689,960</u>	<u>(360,460)</u>	<u>329,500</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	\$ 431,246	\$ (2,100,702)	\$ (1,669,456)
BALANCE, BEGINNING OF YEAR	<u>3,154,509</u>	<u>3,177,036</u>	<u>6,331,545</u>
BALANCE, END OF YEAR	<u>\$ 3,585,755</u>	<u>\$ 1,076,334</u>	<u>\$ 4,662,089</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net Variance
\$ 1,699,084	\$ 1,699,084	\$ 135,087
559,615	559,615	10,554
943,926	967,726	(29,148)
37,225	45,588	7,674
83,856	159,964	91,457
1,565,827	1,490,839	750,478
1,736,055	1,969,435	134,820
-	3,202	-
87,862	128,879	453,639
<u>\$ 6,713,450</u>	<u>\$ 7,024,332</u>	<u>\$ 1,554,561</u>
\$ 1,972,875	\$ 2,030,756	\$ 95,078
1,741,060	1,793,843	82,883
-	-	-
622,793	770,774	61,036
25,300	34,150	(11,657)
1,540,297	1,738,473	129,036
1,040,711	1,061,046	55
-	18,608	5,932
692,000	3,626,237	133,675
<u>\$ 7,635,036</u>	<u>\$ 11,073,887</u>	<u>\$ 496,038</u>
\$ (921,586)	\$ (4,049,555)	\$ 2,050,599
-	393,972	(64,472)
\$ (921,586)	\$ (3,655,583)	<u>\$ 1,986,127</u>
<u>9,672,176</u>	<u>9,672,176</u>	
<u>\$ 8,750,590</u>	<u>\$ 6,016,593</u>	

CITY OF CRESTON, IOWA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
June 30, 2009

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, one budget amendment increased budgeted disbursements by \$3,438,851. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the community and economic development function and in the community and economic development and business type activities functions prior to budget amendments.

## 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, 2009

Schedule 1

	Special Revenue			
	Police and Fire Retirement	Emergency	McKinley Park	Airport
RECEIPTS:				
Property tax	\$ 211,010	\$ 40,815	\$ -	\$ -
Tax increment financing collections	-	-	-	-
Other city tax	-	-	-	-
Licenses and permits	-	-	-	-
Uses of money and property	-	-	1,656	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Special assessments	-	-	-	-
Miscellaneous	-	-	108,877	-
TOTAL RECEIPTS	<u>\$ 211,010</u>	<u>\$ 40,815</u>	<u>\$ 110,533</u>	<u>\$ -</u>
DISBURSEMENTS:				
Operating:				
Public safety	\$ 117,971	\$ -	\$ -	\$ -
Public works	-	-	-	-
Health and social services	-	-	-	-
Culture and recreation	-	-	103,151	-
Community and economic development	-	-	-	-
General government	-	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
TOTAL DISBURSEMENTS	<u>\$ 117,971</u>	<u>\$ -</u>	<u>\$ 103,151</u>	<u>\$ -</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>\$ 93,039</u>	<u>\$ 40,815</u>	<u>\$ 7,382</u>	<u>\$ -</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	\$ -	\$ -	\$ -	\$ -
Operating transfers out	-	(40,815)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ (40,815)</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report.

Special Revenue				Permanent		Total
Skate Park	Library	Cemetery Betterment	Capital Projects	Cemetery Perpetual Care	Cemetery Perpetual Decoration	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 251,825
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	5,199	-	-	-	-	6,855
-	-	-	96,402	-	-	96,402
-	-	-	-	-	-	-
-	-	-	-	-	-	-
5	168,198	-	3,000	3,630	-	283,710
<u>\$ 5</u>	<u>\$ 173,397</u>	<u>\$ -</u>	<u>\$ 99,402</u>	<u>\$ 3,630</u>	<u>\$ -</u>	<u>\$ 638,792</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 117,971
-	-	-	-	-	-	-
-	-	-	-	-	-	-
3	20,489	-	-	-	-	123,643
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	12,676	-	-	12,676
<u>\$ 3</u>	<u>\$ 20,489</u>	<u>\$ -</u>	<u>\$ 12,676</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 254,290</u>
<u>\$ 2</u>	<u>\$ 152,908</u>	<u>\$ -</u>	<u>\$ 86,726</u>	<u>\$ 3,630</u>	<u>\$ -</u>	<u>\$ 384,502</u>
\$ -	\$ 462	\$ 10	\$ -	\$ 4,840	\$ -	\$ 5,312
(2)	-	-	-	-	(692)	(41,509)
<u>\$ (2)</u>	<u>\$ 462</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ 4,840</u>	<u>\$ (692)</u>	<u>\$ (36,197)</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, 2009

Schedule 1

	Special Revenue			
	Police and Fire Retirement	Emergency	McKinley Park	Airport
NET CHANGE IN CASH BALANCE	\$ 93,039	\$ -	\$ 7,382	\$ -
CASH BALANCES, BEGINNING OF YEAR	<u>17,113</u>	<u>-</u>	<u>158,492</u>	<u>400</u>
CASH BALANCES, END OF YEAR	<u>\$ 110,152</u>	<u>\$ -</u>	<u>\$ 165,874</u>	<u>\$400</u>
CASH BASIS FUND BALANCES:				
Reserve:				
Debt service	\$ -	\$ -	\$ -	\$ -
Unreserved:				
General fund	-	-	-	-
Special revenue funds	110,152	-	165,874	400
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
TOTAL CASH BASIS FUND BALANCES	<u>\$ 110,152</u>	<u>\$ -</u>	<u>\$ 165,874</u>	<u>\$400</u>

See accompanying independent auditor's report.



Special Revenue			Capital Projects	Permanent		Total
Skate Park	Library Building	Cemetery Betterment		Cemetery Perpetual Care	Cemetery Perpetual Decoration	
\$ -	\$153,370	\$ 10	\$ 86,726	\$ 8,470	\$ (692)	\$ 348,305
-	138,057	(10)	22,864	199,076	23,283	559,275
<u>\$ -</u>	<u>\$291,427</u>	<u>\$ -</u>	<u>\$109,590</u>	<u>\$207,546</u>	<u>\$ 22,591</u>	<u>\$ 907,580</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	291,427	-	-	-	-	567,853
-	-	-	109,590	-	-	109,590
-	-	-	-	207,546	22,591	230,137
<u>\$ -</u>	<u>\$291,427</u>	<u>\$ -</u>	<u>\$109,590</u>	<u>\$207,546</u>	<u>\$ 22,591</u>	<u>\$ 907,580</u>

CITY OF CRESTON, IOWA  
SCHEDULE OF INDEBTEDNESS  
Year Ended June 30, 2009

Schedule 2

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>
General obligation capital loan notes:			
Refunding notes	August 15, 2005	3.25-4.20%	1,720,000
General corporate purpose	September 14, 2007	4.75%	295,000
General corporate purpose	March 25, 2008	2.40-3.85%	2,530,000
Total			
Other debt:			
State Revolving Funds Loan	Nov. 7, 1995	3.00%	810,000
State Revolving Funds Loan	June 10, 1997	3.00%	2,383,000
State Revolving Funds Loan	March 20, 1998	3.00%	829,000
Equipment note	June 1, 2004	3.75%	50,000
Highway 34/25 improvements	March 11, 2003	0.00%	303,382
Park maintenance building	July 22, 2005	3.65%	93,000
Sewer truck	November 4, 2008	4.45%	329,500
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>
\$ 1,720,000	\$ -	\$ 130,000	\$ 1,590,000	\$ 64,678	\$ -
295,000	-	95,000	200,000	21,760	-
<u>2,530,000</u>	<u>-</u>	<u>190,000</u>	<u>2,340,000</u>	<u>96,942</u>	<u>-</u>
<u>\$ 4,545,000</u>	<u>\$ -</u>	<u>\$ 415,000</u>	<u>\$ 4,130,000</u>	<u>\$ 183,380</u>	<u>\$ -</u>
\$ 368,000	\$ -	\$ 46,000	\$ 322,000	\$ 11,040	\$ -
1,334,000	-	123,000	1,211,000	40,020	-
498,000	-	41,000	457,000	14,940	-
10,000	-	10,000	-	375	-
202,255	-	101,127	101,128	-	-
37,200	-	18,600	18,600	1,358	-
<u>-</u>	<u>329,500</u>	<u>47,071</u>	<u>282,429</u>	<u>8,105</u>	<u>-</u>
<u>\$ 2,449,455</u>	<u>\$ 329,500</u>	<u>\$ 386,798</u>	<u>\$ 2,392,157</u>	<u>\$ 75,838</u>	<u>\$ -</u>

CITY OF CRESTON, IOWA  
BOND AND OTHER DEBT MATURITIES  
JUNE 30, 2009

Schedule 3

Year Ending June 30,	General Obligation Capital Loan Notes			
	Refunding Notes Issued August 15, 2005		General Purpose Issued September 14, 2007	
	Interest Rates	Amount	Interest Rates	Amount
2010	3.35	\$ 135,000	4.75	\$ 100,000
2011	3.45	140,000	4.75	100,000
2012	3.55	145,000	-	-
2013	3.65	150,000	-	-
2014	3.75	155,000	-	-
2015	3.80	160,000	-	-
2016	3.90	165,000	-	-
2017	4.00	175,000	-	-
2018	4.10	180,000	-	-
2019	4.20	185,000	-	-
Total		<u>\$ 1,590,000</u>		<u>\$ 200,000</u>

Year Ending June 30,	Other Debt			
	State Revolving Funds Loan Dated November 7, 1995		State Revolving Funds Loan Dated June 10, 1997	
	Interest Rates	Amount	Interest Rates	Amount
2010	3.00	\$ 48,000	3.00	\$ 129,000
2011	3.00	50,000	3.00	135,000
2012	3.00	52,000	3.00	141,000
2013	3.00	55,000	3.00	147,000
2014	3.00	57,000	3.00	154,000
2015	3.00	60,000	3.00	161,000
2016	3.00	-	3.00	168,000
2017	-	-	3.00	176,000
2018	-	-	-	-
		<u>\$ 322,000</u>		<u>\$ 1,211,000</u>

See accompanying independent auditor's report.

<u>General Obligation Bonds</u>		Total General Obligation Capital Loan Notes	<u>Other Debt</u>	
General Purpose			State Revolving Funds Loan	
<u>Issued March 25, 2008</u>			<u>Dated March 20, 1998</u>	
Interest Rates	Amount		Interest Rates	Amount
2.60	\$ 200,000	\$ 435,000	3.00	\$ 43,000
2.80	210,000	450,000	3.00	45,000
2.95	215,000	360,000	3.00	47,000
3.05	225,000	375,000	3.00	48,000
3.20	230,000	385,000	3.00	51,000
3.35	235,000	395,000	3.00	53,000
3.50	245,000	410,000	3.00	55,000
3.65	250,000	425,000	3.00	57,000
3.75	260,000	440,000	3.00	58,000
3.85	270,000	455,000	-	-
	<u>\$ 2,340,000</u>	<u>\$ 4,130,000</u>		<u>\$ 457,000</u>

Other Debt						
Park Maintenance Building		Sewer Truck		Highway 34/25 Improvements		Total Other Debt
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
3.65	\$ 18,600	4.45	\$ 47,071	-	\$ 101,128	\$ 386,799
-	-	4.45	47,071	-	-	277,071
-	-	4.45	47,071	-	-	287,071
-	-	4.45	47,072	-	-	297,072
-	-	4.45	47,072	-	-	309,072
-	-	4.45	47,072	-	-	321,072
-	-	-	-	-	-	223,000
-	-	-	-	-	-	233,000
-	-	-	-	-	-	58,000
	<u>\$ 18,600</u>		<u>\$ 282,429</u>		<u>\$ 101,128</u>	<u>\$ 2,392,157</u>

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

Schedule 4

	<u>2009</u>	<u>2008</u>	<u>2007</u>
RECEIPTS:			
Property tax	\$ 1,834,171	\$ 1,610,447	\$ 1,751,774
Tax incremental financing collections	570,169	377,466	257,088
Other city tax	938,578	930,308	958,901
Licenses and permits	53,262	35,096	84,004
Uses of money and property	220,911	309,648	272,066
Intergovernmental	1,877,398	1,604,264	1,443,949
Charges for services	754,752	728,682	636,366
Special assessments	3,202	1,120	1,123
Miscellaneous	574,130	405,027	529,052
	<u>574,130</u>	<u>405,027</u>	<u>529,052</u>
TOTAL	<u><u>\$ 6,826,573</u></u>	<u><u>\$ 6,002,058</u></u>	<u><u>\$ 5,934,323</u></u>
DISBURSEMENTS:			
Operating:			
Public safety	\$ 1,935,678	\$ 1,369,057	\$ 1,329,216
Public works	1,710,960	1,550,531	1,424,508
Health and social services	-	-	-
Culture and recreation	709,738	1,055,408	574,424
Community and economic development	45,807	29,577	22,051
General government	1,609,437	1,818,139	1,525,619
Debt service	1,060,991	1,137,048	748,852
Capital projects	12,676	39,328	7,016
	<u>12,676</u>	<u>39,328</u>	<u>7,016</u>
TOTAL	<u><u>\$ 7,085,287</u></u>	<u><u>\$ 6,999,088</u></u>	<u><u>\$ 5,631,686</u></u>

See accompanying independent auditor's report.

<u>2006</u>	<u>2005</u>
\$ 2,347,714	\$ 2,406,504
123,798	125,512
642,641	90,754
83,496	58,863
178,858	67,787
1,714,568	1,701,605
631,690	636,413
770	768
273,672	255,315
<u>\$ 5,997,207</u>	<u>\$ 5,343,521</u>

\$ 1,382,540	\$ 1,284,193
1,242,654	1,376,244
-	-
475,808	440,350
36,840	29,966
1,859,588	817,126
987,032	1,022,485
94,540	397,048
<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, 2009

Schedule 5

<u>Federal grantor/pass-through grant/program name</u>	<u>Federal CFDA* Number</u>	<u>Total Federal Expenditures</u>
United States Department of Homeland Security: Federal Emergency Management: Assistance to Firefighters Grants*	97.044	<u>\$ 518,748</u>
United States Department of Federal Aviation: Airport Improvements Grants	20.106	<u>\$ 192,054</u>
United States Department of Housing and Urban Development: Iowa Department of Economic Development Community Development Block Grant	14.228	<u>\$ 422,868</u>
United States Department of Homeland Security: Iowa Department of Public Defense: Iowa Homeland Security and Emergency Management Division: Disaster Grants - Public Assistance	97.036	<u>\$ 113,023</u>
Total Federal Expenditures		<u><u>\$1,246,693</u></u>

\*Major federal financial assistance program

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, 2009

Basis of Presentation

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

See accompanying independent auditor's reports.

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

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

We have audited the financial statements of the government activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Creston, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City of Creston, Iowa's basic financial statements and have issued our report thereon dated August 28, 2009. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards generally and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting 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 combination of control deficiencies, that adversely affects the City of Creston, Iowa'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 remote likelihood that a misstatement of the City of Creston, Iowa's financial

statements that is more than inconsequential will not be prevented or detected by the City of Creston, Iowa's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Creston, Iowa's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the management, the audit committee, City Council, and other parties to whom the City of Creston, Iowa, may report and is not intended to be and should not be used by anyone other than these specified parties.

*Drapen, Smidgrass, Mickelson & Co., P.C.*

August 28, 2009

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

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

Compliance

We have audited the compliance of the City of Creston, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2009. The City of Creston, Iowa's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its major federal program is the responsibility of the City of Creston, Iowa's management. Our responsibility is to express an opinion on the City of Creston, Iowa's compliance based on our audit.

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

In our opinion, the City of Creston, Iowa complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009. However, the results of our auditing procedures disclosed an instance of non-compliance with those requirements which is required to be reported in accordance with OMB Circular A-133 and which is described as items 2009-III-A and 2009-III-B in the accompanying Schedule of Findings and Questioned Costs.

## Internal Control Over Compliance

The management of the City of Creston, Iowa, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Creston Iowa's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the 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 would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the City's internal control over compliance 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 non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2009-III-C to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Creston, Iowa, and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Drapen, Smidgrasso, Mickelson & Co., P.C.*

August 28, 2009

CITY OF CRESTON, IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2009

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) A significant deficiency 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 97.044 – Assistance to Firefighters Grants
  - 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, 2009

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS

2009-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.

2009-II-B      Supporting documentation for payments: A disbursement was made for the payment of services provided to the City without a proper invoice or statement from the vendor.

Recommendation: The City's policy includes that all payments for services or goods should be paid based on an original invoice for those goods or services. The City should follow the policy for payments so that all goods and services purchased by the City are properly documented and for the proper use of the City.

Response and corrective action planned: The City will not process disbursements without proper documentation.

Conclusion: Response acknowledged.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

CITY OF CRESTON, IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2009

PART III: FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

INSTANCES OF NONCOMPLIANCE:

CFDA Number 97.044: Assistance to Firefighters Grant  
Federal Award Year: 2009  
United States Department of Homeland Security

2009-III-A      Cash Management: The assistance for Firefighters Grant cash management allowed for advances for the grant for immediate cash needs of the grantee. The City received an advance for the grant and held the funds for 62 days prior to disbursing the funds for the approved project.

Recommendation: The City should only request advance funds that are needed for current amounts due and disburse the funds within the time allowed within the grant agreements.

Response and corrective action planned: The City will only request funds that are needed and will disburse funds within the guidelines of the grant.

Conclusion: Response acknowledged.

CFDA Number 14.228: Community Development Block Grants  
Federal Award Year: 2009  
United States Department of Housing and Urban Development Passed Through the Iowa Department of Economic Development

2009-III-B      Cash Management: Community Development Block Grant Funds are to be disbursed within 10 days of the receipt of those funds per the grant agreements. The City held certain funds beyond the 10 day period before disbursing the funds.

Recommendation: The City comply with the cash management terms of the grant agreement and only request those needed funds for the current requirements and properly disburse the funds as required by the agreements.

Response and corrective action planned: The City will comply with the cash management terms of the grant agreements.

Conclusion: Response acknowledged.



CITY OF CRESTON, IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2009

SIGNIFICANT DEFICIENCIES:

2009-III-C      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 2009-II-A.

PART IV. OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

2009-IV-1      Certified Budget: Disbursements during the year ended June 30, 2009, exceeded the amounts budgeted in the Community and Economic Development and Business Type Activities Functions prior to the budget amendment and in the Community and Economic Development Function after the budget amendment. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response: The City will review the need for budget amendments on a more timely basis to ensure compliance to Chapter 384.18 of the Code of Iowa.

Conclusion: Response acknowledged.

2009-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.

2009-IV-3      Travel Expense: No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.

CITY OF CRESTON, IOWA  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2009

2009-IV-4      Business Transactions: Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, title and Business connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Larry Wynn, Council Member, Owner of F & M Body Shop	Repairs	\$ 675
John Kawa, Park and Recreation Board Member		
Owner of Kawa Construction	Benches	1,667
	Flag pole lights	975
	Pool repairs	11,776

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Member do not appear to represent conflicts of interest since total transactions were less than \$1,500 during the fiscal year. The transactions with the Park and Recreation board member do not appear to represent conflicts of interest with the exception of the pool repairs since the total of each transactions were less than \$1,500. The pool repairs may represent a conflict of interest as there was no competitive bidding for those repairs as required in Chapter 362.5(4) of the Code of Iowa.

Recommendation: The City should follow Chapter 362.5(4) of the Code of Iowa and obtain competitive bids for any project that may involve City Council or committee board members to avoid any potential conflict of interest.

Response: The City will obtain competitive bids for projects that may include City Council or Committee Board Members to avoid any potential conflict of interest.

Conclusion: Response acknowledged.

2009-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.

2009-IV-6      Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.

CITY OF CRESTON, IOWA  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2009

- 2009-IV-7      Revenue Bonds: The City does not have revenue bonds, only general obligation bonds.
- 2009-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.