

CITY OF FARRAGUT

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

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City of Farragut

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Thomas Shull	Mayor	January 2006
Emily Bengtson	Council Member	January 2006
Harold Dinsmore	Council Member	January 2006
C.N. Lashier	Council Member	January 2006
John Burkhiser	Council Member	January 2007
Lonnie Koch	Council Member	January 2007
Marilyn Phipps	City Clerk	Indefinite

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(After January 2006)		
Thomas Shull	Mayor	January 2006
John Burkhiser	Council Member	January 2007
Lonnie Koch	Council Member	January 2007
Harold Dinsmore	Council Member	January 2009
C.N. Lashier	Council Member	January 2009
Becki Sickman	Council Member	January 2009
Marilyn Phipps	City Clerk	Indefinite

City of Farragut

July 18, 2006

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Farragut, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Farragut's management. 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 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 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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, 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, each major fund and the aggregate remaining fund information of the City of Farragut as of June 30, 2006, 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.

Continued...

July 18, 2006
City of Farragut
Independent Auditors' Report

As described in Note 14, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2006 on our consideration of the City of Farragut's internal control over financial reporting, and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 31 through 33 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 performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Farragut's basic financial statements. The supplementary information included in Schedules 1 through 4, 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, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the fifth preceding paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Farragut 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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2006 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities were approximately \$180,000. Property taxes were approximately \$76,000 and intergovernmental receipts were \$60,000.
- Disbursements were approximately \$269,000. Public works, culture and recreation, and community and economic development were \$141,000, \$44,000 and \$43,000, respectively.
- The City's total cash basis net assets decreased 19%, or approximately \$104,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately 89,000, and the assets of the business type activities decreased by approximately \$15,000.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. 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 statement by providing information about the most significant funds.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development and general government. Property tax and state grants finance most of these activities.
- Business Type Activities include the waterworks, electric system and the sanitary sewer system. 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: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, and 3) the Permanent Fund. 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 statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, landfill and deposit funds.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from \$481,994 to \$392,430. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		Year Ended June 30, 2006
Receipts and transfers:		
Program receipts:		
Charges for service	\$	3
Operating grants, contributions and restricted interest		63
General receipts:		
Property tax		76
Local option sales tax		34
Grants and contributions not restricted to specific purpose		1
Unrestricted investment earnings		3
Total receipts and transfers		<u>180</u>
Disbursements:		
Public safety		20
Public works		141
Culture and recreation		44
Community and economic development		43
General government		21
Total disbursements		<u>269</u>
Decrease in cash basis net assets		(89)
Cash basis net assets beginning of year		<u>482</u>
Cash basis net assets end of year	\$	<u>393</u>

Total receipts for the City of Farragut governmental activities decreased by 5% or \$9,463. The total cost of all programs and services increased by approximately \$126,601, or 89%, with no new programs added this year. The significant increase in disbursements was primarily the result of acquiring land for cemetery expansion, demolishing a building, and purchase of an air compressor and dehumidifier system for the water plant.

The cost of all governmental activities this year was \$269,107 compared to \$142,416 last year. However, as shown in the Statement of Activities and Net Assets the amount taxpayers ultimately financed for these activities was only \$203,028 because some of the cost was paid by those directly benefited from the programs (\$3,049) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$63,030). The City paid the remaining "public benefit" portion of governmental activities with approximately \$76,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	Year Ended June 30, 2006
Receipts and transfers:	
Program receipts:	
Charges for service:	
Water	61
Sewer	29
Landfill	8
General receipts:	
Unrestricted interest on investments	1
Other general receipts	6
Total receipts	105
Disbursements and transfers:	
Water	87
Sewer	25
Landfill	8
Total disbursements and transfers	120
Decrease in cash basis net assets	(15)
Cash basis net assets beginning of year	71
Cash basis net assets end of year	56

Total business type activities receipts for the fiscal year were \$105,000 compared to \$571,000 last year. This significant decrease was due primarily to the receipt of \$465,000 in the prior fiscal year from revenue note proceeds. The cash balance decreased by approximately \$15,000 from the prior year because of water debt service payments. Total disbursements for the fiscal year were \$120,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Farragut completed the year, its governmental funds reported a combined fund balance of \$392,430, a decrease of \$89,564 under last year's total of \$481,994. 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 decreased \$34,382 from the prior year (\$298,965) to \$264,583. This decrease was due to the expense of demolishing the building (\$42,617).
- The Road Use Tax Fund cash balance decreased by \$58,053 to \$71,606 during the fiscal year. This decrease was due to maintenance projects (asphalt and chip and seal) of streets in Farragut.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$19,166 to \$8,889, due to purchase of an air compressor and dehumidifier for the water plant, and water debt for the project on water mains, etc., last year.
- The Sewer Fund cash balance increased by \$4,476 to \$43,200, due to less expenses incurred in the cost of maintaining and operating the sewer system.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment resulted in an increase in operating disbursements related to the purchase of land for expansion of the cemetery, demolishing the building, two street maintenance projects, plus the omission of appropriating \$10,000 for street lighting when the budget was made up.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$434,000 in revenue notes compared to \$452,000 last year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Farragut's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for various City activities. Major items addressed in the budget included insulating and new furnaces for the Fire Station which also houses maintenance equipment. Raising water rates was taken into consideration, but was not deemed necessary right now.

The City tries to hold down any increases in taxes as much as possible. Our community is not growing, and the percentage of tax roll back has caused us to take a look at what we need to do to maintain the level of service we now have.

Amounts available for appropriation in the operating budget are \$490,397.

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, contact Marilyn Phipps, City Clerk, P.O. Box 241, Farragut, Iowa.

Basic Financial Statements

City of Farragut
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2006

	Disbursements	Program Charges for Service
Functions/Programs:		
Governmental activities:		
Public safety	\$ 20,821	46
Public works	141,047	1,221
Culture and recreation	43,740	1,480
Community and economic development	42,617	135
General government	20,882	167
Total governmental activities	269,107	3,049
Business type activities:		
Water	87,104	61,404
Sewer	24,590	28,842
Landfill	8,464	8,409
Deposits	200	-
Total business type activities	120,358	98,655
 Total	 \$ 389,465	 101,704

General Receipts:
Property tax levied for:
 General purposes
 Employee benefits
Local option sales tax
Grants and contributions not restricted to specific purpose
Unrestricted interest on investments
Miscellaneous
 Total general receipts and transfers

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
 Cemetery perpetual care
Unrestricted

 Total cash basis net assets

See notes to financial statements

Receipts Operating Grants Contributions and Restricted Interest	Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
17,996	(2,779)	-	(2,779)
42,616	(97,210)	-	(97,210)
1,634	(40,626)	-	(40,626)
-	(42,482)	-	(42,482)
784	(19,931)	-	(19,931)
<u>63,030</u>	<u>(203,028)</u>	<u>-</u>	<u>(203,028)</u>
-	-	(25,700)	(25,700)
-	-	4,252	4,252
-	-	(55)	(55)
300	-	100	100
<u>300</u>	<u>-</u>	<u>(21,403)</u>	<u>(21,403)</u>
<u>63,330</u>	<u>(203,028)</u>	<u>(21,403)</u>	<u>(224,431)</u>
\$	69,267	-	69,267
	6,676	-	6,676
	33,521	-	33,521
	390	-	390
	3,610	448	4,058
	-	6,310	6,310
	<u>113,464</u>	<u>6,758</u>	<u>120,222</u>
	(89,564)	(14,645)	(104,209)
	<u>481,994</u>	<u>71,339</u>	<u>553,333</u>
\$	<u>392,430</u>	<u>56,694</u>	<u>449,124</u>
\$	71,606	-	71,606
	4,988	-	4,988
	51,253	-	51,253
	<u>264,583</u>	<u>56,694</u>	<u>321,277</u>
\$	<u>392,430</u>	<u>56,694</u>	<u>449,124</u>

City of Farragut
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2006

	Special Revenue		
General	Road Use Tax	Employee Benefits	
Receipts:			
Property tax	\$ 64,605	-	6,430
Other city tax	4,662	-	246
Licenses and permits	167	-	-
Use of money and property	5,588	-	-
Intergovernmental	18,042	42,616	-
Charges for service	1,540	-	-
Miscellaneous	2,051	-	-
Total receipts	96,655	42,616	6,676
Disbursements:			
Operating:			
Public safety	20,821	-	-
Public works	37,547	100,669	2,831
Culture and recreation	43,526	-	214
Community and economic development	42,617	-	-
General government	20,047	-	835
Total disbursements	164,558	100,669	3,880
Excess (deficiency) of receipts over (under) disbursements	(67,903)	(58,053)	2,796
Other financing sources:			
Operating transfers in	33,521	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	33,521	-	-
Net change in cash balances	(34,382)	(58,053)	2,796
Cash balances, beginning of year	298,965	129,659	2,192
Cash balances, end of year	\$ 264,583	71,606	4,988
Cash Basis Fund Balances			
Unreserved:			
General fund	\$ 264,583	-	-
Special revenue funds	-	71,606	4,988
Permanent fund	-	-	-
Total cash basis fund balances	\$ 264,583	71,606	4,988

See notes to financial statements

<u>Local Option Sales Tax</u>	<u>Permanent Cemetery Perpetual Care</u>	<u>Total</u>
-	-	71,035
33,521	-	38,429
-	-	167
-	-	5,588
-	-	60,658
-	-	1,540
-	75	2,126
<u>33,521</u>	<u>75</u>	<u>179,543</u>
-	-	20,821
-	-	141,047
-	-	43,740
-	-	42,617
-	-	20,882
<u>-</u>	<u>-</u>	<u>269,107</u>
33,521	75	(89,564)
-	-	33,521
<u>(33,521)</u>	<u>-</u>	<u>(33,521)</u>
<u>-</u>	<u>-</u>	<u>-</u>
-	75	(89,564)
<u>-</u>	<u>51,178</u>	<u>481,994</u>
<u>-</u>	<u>51,253</u>	<u>392,430</u>
-	-	264,583
-	-	76,594
<u>-</u>	<u>51,253</u>	<u>51,253</u>
<u>-</u>	<u>51,253</u>	<u>392,430</u>

City of Farragut
 Reconciliation of the Statement of Cash Receipts,
 Disbursements and Changes in Cash Balances to the
 Statement of Activities and Net Assets -
 Governmental Funds
 As of and for the year ended June 30, 2006

Total governmental funds cash balances	\$	392,430
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

None		-
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Cash basis net assets of governmental activities	\$	392,430
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Net change in cash balances	\$	(89,564)
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

None		-
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Change in cash balance of governmental activities	\$	(89,564)
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City of Farragut
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2006

	Enterprise	
	Water	Sewer
Operating receipts:		
Charges for service	\$ 61,404	28,842
Operating disbursements:		
Business type activities	55,544	24,590
Excess (deficiency) of operating receipts over (under) operating disbursements	5,860	4,252
Non-operating receipts (disbursements):		
Interest on investments	224	224
Miscellaneous	6,310	-
Debt service	(31,560)	-
Total non-operating receipts (disbursements)	(25,026)	224
Net change in cash balances	(19,166)	4,476
Cash balances beginning of year	28,055	38,724
Cash balances end of year	\$ 8,889	43,200
Cash Basis Fund Balances		
Unreserved	\$ 8,889	43,200

See notes to financial statements

Funds

<u>Nonmajor</u>	<u>Total</u>
8,409	98,655
<u>8,664</u>	<u>88,798</u>
(255)	9,857
-	448
300	6,610
<u>-</u>	<u>(31,560)</u>
<u>300</u>	<u>(24,502)</u>
45	(14,645)
<u>4,560</u>	<u>71,339</u>
<u>4,605</u>	<u>56,694</u>
<u>4,605</u>	<u>56,694</u>

City of Farragut
 Reconciliation of the Statement of Cash Receipts,
 Disbursements and Changes in Cash Balances to the
 Statement of Activities and Net Assets -
 Proprietary Funds
 As of and for the year ended June 30, 2006

Total enterprise funds cash balances	\$	56,694
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Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

None		-
------	--	---

Cash basis net assets of business type activities	\$	56,694
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Net change in cash balances	\$	(14,645)
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Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

None		-
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Change in cash balance of business type activities	\$	(14,645)
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City of Farragut

City of Farragut
Notes to Financial Statements
June 30, 2006

NOTE (1) Summary of Significant Accounting Policies

The City of Farragut is a political subdivision of the State of Iowa located in Fremont County. It was first incorporated in 1878 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 and recreation, community and economic development, and general government services. The City also provides electric, water, sewer and landfill utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Farragut 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. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or 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: Fremont County Assessor's Conference Board, Fremont County Landfill Association, and Fremont County Emergency Management Commission.

City of Farragut
Notes to Financial Statements
June 30, 2006

NOTE (1) Summary of Significant Accounting Policies - Continued

B. 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.

City of Farragut
Notes to Financial Statements
June 30, 2006

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

The City reports the following major governmental funds:

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 property taxes levied to pay employee benefits.

The Local Option Sales Tax Fund is used to account for receipts from tax authorized by referendum and used for property tax relief, infrastructure, community protection and community betterment.

The Permanent Fund – Cemetery Perpetual Care is used to report resources that are legally restricted to the extent that only earnings and not principal may be used to care for the cemetery.

The City reports the following major proprietary funds:

The Electric Fund accounts for the operation and maintenance of the City's electric utility.

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

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

City of Farragut
Notes to Financial Statements
June 30, 2006

NOTE (1) Summary of Significant Accounting Policies - Continued

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public works function.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2004, to compute the amounts which became liens on property on July 1, 2005. These taxes were due and payable in two installments on September 30, 2005 and March 31, 2006, at the Fremont County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

NOTE (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 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 of Farragut
Notes to Financial Statements
June 30, 2006

NOTE (2) Cash and Pooled Investments - Continued

The City's cash, which consists of cash in bank and certificates of deposit, totaled \$449,124.

Interest rate risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

NOTE (3) Bonds and Notes Payable

Annual debt service requirements to maturity for revenue notes are as follows:

Year Ending June 30,	Revenue Notes	
	Principal	Interest
2007	\$ 19,000	13,020
2008	19,000	12,450
2009	20,000	11,880
2010	20,000	11,280
2011	21,000	10,680
2012-2015	113,000	43,680
2017-2021	132,000	25,590
2022-2024	90,000	5,460
Total	\$ <u>434,000</u>	<u>134,040</u>

Changes in long term debt for the year are as follows:

Beginning balance	\$ 452,000
Payments	<u>18,000</u>
Ending balance	\$ <u>434,000</u>

Interest paid on long term debt during the year totaled \$13,560.

The City has a legal debt limit of approximately \$670,000, which was not exceeded during the year ended June 30, 2006.

The resolution providing for the issuance of the revenue notes include the following provision.

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 funds.

City of Farragut
Notes to Financial Statements
June 30, 2006

NOTE (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.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2006 was \$2,656, equal to the required contribution for the year.

NOTE (5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation benefits payable to employees at June 30, 2006, primarily relating to the General Fund was \$1,135. This liability has been computed based on rates of pay in effect at June 30, 2006.

NOTE (6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue Local Option Sales Tax	\$ <u>33,521</u>

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

NOTE (7) Risk Management

The City 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.

City of Farragut
Notes to Financial Statements
June 30, 2006

NOTE (8) Commitments

Cemetery Contract

The City has contracted for mowing and maintenance of the cemetery grounds from April 15 to October 15, 2006. The remaining commitment on the contract at June 30, 2006 was \$4,667.

NOTE (9) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*, were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City’s governmental and business type activities. The accounting change had no effect on beginning net assets.

Required Supplementary Information

City of Farragut
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual
	<u> </u>	<u> </u>
Receipts:		
Property tax	\$ 71,035	-
Other city tax	38,429	-
Licenses and permits	167	-
Use of money and property	5,588	448
Intergovernmental	60,658	-
Charges for service	1,540	98,655
Miscellaneous	2,126	6,610
Total receipts	<u>179,543</u>	<u>105,713</u>
Disbursements:		
Public safety	20,821	-
Public works	141,047	-
Culture and recreation	43,740	-
Community and economic development	42,617	-
General government	20,882	-
Business type activities	-	120,358
Total disbursements	<u>269,107</u>	<u>120,358</u>
Excess (deficiency) of receipts over (under) disbursements	(89,564)	(14,645)
Other financing sources, net	<u>-</u>	<u>-</u>
Deficiency of receipts and other financing sources under disbursements and other financing uses	(89,564)	(14,645)
Balances, beginning of year	<u>481,994</u>	<u>71,339</u>
Balances, end of year	<u>\$ 392,430</u>	<u>56,694</u>

See accompanying notes to financial statement

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
71,035	71,901	71,901	(866)
38,429	31,513	35,813	2,616
167	100	100	67
6,036	5,000	5,000	1,036
60,658	62,292	62,292	(1,634)
100,195	102,120	134,620	(34,425)
8,736	900	1,100	7,636
<u>285,256</u>	<u>273,826</u>	<u>310,826</u>	<u>(25,570)</u>
20,821	38,258	38,258	17,437
141,047	120,600	136,800	(4,247)
43,740	12,318	44,818	1,078
42,617	25,000	43,000	383
20,882	18,820	22,470	1,588
120,358	97,642	125,892	5,534
<u>389,465</u>	<u>312,638</u>	<u>411,238</u>	<u>21,773</u>
(104,209)	(38,812)	(1,812)	10,848
<u>-</u>	<u>-</u>	<u>98,600</u>	<u>(98,600)</u>
(104,209)	(38,812)	(1,812)	(87,752)
<u>553,333</u>	<u>435,235</u>	<u>435,235</u>	<u>46,759</u>
<u>449,124</u>	<u>396,423</u>	<u>433,423</u>	<u>(40,993)</u>

See accompanying independent auditors' report

City of Farragut
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board (GASB) 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 major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, culture and recreation, community and economic development, general government and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Permanent Fund and the 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 \$98,600. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public works function.

Other Supplementary Information

City of Farragut
 Statement of Cash Receipts, Disbursements
 and Changes in Cash Balances
 Nonmajor Enterprise Funds
 Year ended June 30, 2006

	<u>Landfill</u>	<u>Utility Deposits</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 8,409	-	8,409
Miscellaneous	-	300	300
	<u>8,409</u>	<u>300</u>	<u>8,709</u>
Operating disbursements:			
Business type activities	<u>8,464</u>	<u>200</u>	<u>8,664</u>
Net change in cash balances	(55)	100	45
Cash balances, beginning of year	<u>1,187</u>	<u>3,373</u>	<u>4,560</u>
Cash balances, end of year	\$ <u>1,132</u>	<u>3,473</u>	<u>4,605</u>
 Cash Basis Fund Balances			
Unreserved	\$ <u>1,132</u>	<u>3,473</u>	<u>4,605</u>

See accompanying independent auditors' report

City of Farragut
 Schedule of Indebtedness
 June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue notes: Water	Sept 13, 2004	3.00 %	\$ 475,000

See accompanying independent auditors' 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>
\$	452,000	-	18,000	434,000	13,560	-

City of Farragut
 Bond and Note Maturities
 June 30, 2006

Year Ending June 30,	Water	
	Issued Sept 13, 2004	
	Interest Rates	Amount
2007	3.00 %	\$ 19,000
2008	3.00 %	19,000
2009	3.00 %	20,000
2010	3.00 %	20,000
2011	3.00 %	21,000
2012	3.00 %	21,000
2013	3.00 %	22,000
2014	3.00 %	23,000
2015	3.00 %	23,000
2016	3.00 %	24,000
2017	3.00 %	25,000
2018	3.00 %	26,000
2019	3.00 %	26,000
2020	3.00 %	27,000
2021	3.00 %	28,000
2022	3.00 %	29,000
2023	3.00 %	30,000
2021	3.00 %	31,000
		<u>\$ 434,000</u>

See accompanying independent auditors' report

City of Farragut

July 18, 2006

Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Farragut, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated July 18, 2006. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting as we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005. Except as noted in the Independent Auditors' Report, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Farragut's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Farragut's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

Continued...

City of Farragut
Report on Internal Control

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are also material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Farragut's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 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.

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 Farragut and other parties to whom the City of Farragut may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Farragut during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

City of Farragut
Schedule of Findings
Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties

Comment – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one person is responsible for billing, collecting, and posting utility receipts.

Recommendation – We realize that segregation of duties may not be economically feasible. However, the City should review operating procedures to obtain the maximum internal control possible under the circumstances.

Response – The City Council reviews financial transactions and reports.

Conclusion – Response accepted.

I-B-06 Clerk's Report

Comment – The monthly Clerk's Report did not accurately reflect the Cemetery cash and investment balances.

Recommendation – These balances should be reflected in the monthly Clerk's Report.

Response – We have corrected our records to include these balances.

Conclusion – Response accepted.

City of Farragut
 Schedule of Findings
 Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

II-A-06 Certified Budget

Comment – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public works function. 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 budget will be amended in the future, if applicable.

Conclusion – Response accepted.

II-B-06 Entertainment Expense – We noted no disbursements for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General’s opinion dated April 25, 1979.

II-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-06 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>
Thomas Shull, Mayor owner of Shull Hardware	Supplies	\$ 716

In accordance with Chapter 362.5(10) of the Code of Iowa, the above transactions with a Council Member do not appear to represent a conflict of interest since the total transactions with the individual did not exceed \$2,500 during the fiscal year.

II-E-06 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.

II-F-06 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

City of Farragut
Schedule of Findings
Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting - Continued:

II-G-06 Deposits and Investments

Comment – 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. However, the interest rates on several certificates of deposits did not meet the statutory rates established by the State Rate Setting Committee.

Recommendation – The City should update its investment policy to reflect the provisions of Chapter 12. The City should contact the financial institution to correct the rates and request that they pay the interest as required.

Response – We will do this.

Conclusion – Response accepted.

II-H-06 Revenue Notes – The City has complied with the provisions of the revenue note resolution.

II-I-06 Excess Balances – The cash balances in the General Fund, the Special Revenue Fund, Employee Benefit Accounts at June 30, 2006 were in excess of the disbursements made from the respective funds during the year.

Recommendation – The City should consider the necessity of maintaining the excess balances, and where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response – We will review this further.

Conclusion – Response accepted.

II-J-06 City Code – In accordance with Chapter 380.8(2) of the Code of Iowa, at least once every five years a City shall compile a City Code containing all of the city ordinances in effect except trade, bond, and zoning ordinances, and ordinances vacating streets and alleys. The City has not re-codified its City Ordinances in more than five years.

Recommendation – The City should re-codify the City Ordinances.

Response – We will do this.

Conclusion – Response accepted.

II-K-06 Local Option Sales Tax – The City currently reflects Local Option Sales Tax as a General receipt.

Recommendation – The City should record both receipts and disbursements of the Local Option Sales Tax in a Special Revenue Fund as required by statute in order to reflect a proper accounting of how funds are being spent.

Response – We will do this.

Conclusion – Response accepted.

NEWS RELEASE

SCHROER & ASSOCIATES, P.C. today released an audit report on the City of Farragut, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2006, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$285,256 for the year ended June 30, 2006. The receipts included \$75,943 in property tax, \$101,704 from charges for service, \$63,330 from operating grants, contributions and restricted interest, \$33,521 from local option sales tax, \$4,058 from unrestricted investment earnings and \$6,700 from other receipts.

Disbursements for the year totaled \$389,465, and included \$141,047 for public works, \$43,740 for culture and recreation and \$42,617 for community and economic development. Also, disbursements for business type activities totaled \$120,358.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

November 21, 2006

David Vaudt
Office of State Auditor
State Capitol Building
Des Moines, IA 50319

Dear Sir:

We have enclosed for your records the following information regarding the audit of the City of Farragut, Iowa for the year ended June 30, 2006.

- 2 copies of the audit report
- 1 copy of the news release
- 1 copy of the number of hours worked
- 1 copy of the invoice

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

City of Farragut

Hours Worked: 54

November 21, 2006

Thomas Shull
City of Farragut
P.O. Box 241
Farragut, IA 51639

Dear Mr. Shull:

We have filed the required copies of your audit report with the Office of Auditor of State. A filing fee is required to be paid based on your final amended budget, according to the following schedule:

<u>Budgeted Expenditures (in millions of dollars)</u>	<u>Fee Amount</u>
Under 1	\$100.00
At least 1, but less than 3	\$175.00
At least 3, but less than 5	\$250.00
At least 5, but less than 10	\$425.00
At least 10, but less than 25	\$625.00
25 and over	\$850.00

You are required to send the appropriate filing fee. The check should be made payable to "Auditor of State" and mailed to Office of Auditor of State, Capitol Building, Des Moines, IA 50319-0004.

If you have any questions, please do not hesitate to call me at 712-322-8734.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh

