

**Sewer Enterprise Fund of the City of Crescent  
Independent Auditors' Report  
Basic Financial Statements and  
Supplementary Information  
Schedule of Findings**

**June 30, 2006 and 2005**

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**City of Crescent  
Officials**

<u>Name</u>	<u>Title</u> <b>(Before January 2006)</b>	<u>Term Expires</u>
Taurino Delgado	Mayor	January 2006
Bob Anderson	Council Member	January 2006
Shawn Shea	Council Member	January 2006
Jim Campin	Council Member	January 2008
Bill Leggio	Council Member	Resigned July 21, 2005
Barbara Eckstein	Council Member	January 2008
Chuck Stokes	Council Member	January 2008
Mary Martin	City Clerk	Indefinite
Monica Campin	Treasurer	Indefinite

<u>Name</u>	<u>Title</u> <b>(After January 2006)</b>	<u>Term Expires</u>
Taurino Delgado	Mayor	January 2008
Jim Campin	Council Member	January 2008
Barbara Eckstein	Council Member	January 2008
Chuck Stokes	Council Member	January 2008
Bob Anderson	Council Member	January 2010
Elvis Jacobsen	Council Member	January 2010
Mary Martin	City Clerk	Indefinite
Monica Campin	Treasurer	Indefinite

October 30, 2006

Independent Auditors' Report

To the Honorable Mayor and  
the Members of the City Council  
City of Crescent  
Crescent, IA 51526

We have audited the accompanying financial statements of the Sewer Enterprise Fund of the City of Crescent, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the City of Crescent's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 opinion.

As discussed in Note A, the financial statements present only the Sewer Enterprise Fund and do not purport to, and do not, present fairly the financial position of the City of Crescent, Iowa, as of June 30, 2006 and 2005, and the changes in its financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sewer Enterprise Fund of the City of Crescent at June 30, 2006 and 2005, and the changes in its financial position and the cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Continued...

October 30, 2006  
Sewer Enterprise Fund of the City of Crescent  
Independent Auditors' Report

In accordance with *Government Auditing Standards* we have also issued our report dated October 30, 2006, on our consideration of the Enterprise Fund's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 9, and pages 21 through 28, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 5 and 6 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Information in Schedules 5 and 6 has been subjected to the auditing procedures applied in the 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.

## **Sewer Enterprise Fund of the City of Crescent Management's Discussion and Analysis**

The City of Crescent provides this management's discussion and analysis of its Sewer Enterprise Fund's financial statements. This narrative overview and analysis of the financial activities is for the fiscal years ended June 30, 2006. We encourage readers to consider this information in conjunction with the Fund's financial statements, which follow.

### **Financial Highlights**

- Sewer operating revenues increased 3.3%, or \$3,109, from fiscal 2005 to fiscal 2006.
- Sewer operating expenses increased 22.5%, or \$19,673, from fiscal 2005 to fiscal 2006.
- Sewer net operating income decreased \$16,564, from fiscal 2005 to fiscal 2006.

### **Using This Annual Report**

The Sewer Enterprise Fund's financial statements are presented using accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis is intended to serve as an introduction to of the Sewer Enterprise Fund of the City of Crescent financial statements. The annual report consists of a series of financial statements and other information, as follows:

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

The Statement of Net Assets presents information on the Fund's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Fund's operating revenues and expenses, non-operating revenues and expenses and whether the Fund's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Fund's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Fund financed its activities and how it met its cash requirements.

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

## Financial Analysis of the Sewer Enterprise Fund

### Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Fund's financial position. The Fund's net assets for fiscal 2006 totaled approximately \$1,042,830. This compares to approximately \$1,089,744 for fiscal 2005. A summary of the Fund's net assets is presented below.

	Net Assets	
	June 30,	
	2006	2005
Current and other assets	\$ 136,460	\$ 125,870
Capital assets	<u>2,137,722</u>	<u>2,195,906</u>
	2,274,182	2,321,776
Current liabilities	95,697	96,032
Long term liabilities	<u>1,135,655</u>	<u>1,136,000</u>
	<u>1,231,352</u>	<u>1,232,032</u>
Net assets:		
Invested in capital assets, net of related debt	1,002,067	1,059,906
Restricted for:		
Debt reserve	24,598	18,156
Funded depreciation	11,000	22,000
Unrestricted	<u>5,165</u>	<u>(10,318)</u>
Total net assets	\$ <u>1,042,830</u>	\$ <u>1,089,744</u>

The largest portion of the Fund's net assets is invested in capital assets, net of related debt.

### Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues are received for sewer sales. Operating expenses are expenses paid to operate the sewer systems. Non-operating revenues and expenses are for interest income and expense, grant and other miscellaneous revenue. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets for the years ended June 30, 2006 and 2005 is presented as follows:

Changes in Net Assets	
Year ended June 30,	

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Sewer fees	\$ 94,611	\$ 91,502
Operating expenses:		
Contract services	29,034	21,683
Depreciation	58,184	58,184
Insurance	1,988	694
Office	144	276
Repairs	1,224	5,305
Salaries and benefits	14,881	181
Supplies	212	-
Utilities	1,366	1,037
Total operating expenses	<u>107,033</u>	<u>87,360</u>
Operating income	(12,422)	4,142
Non-operating revenue:		
Interest income	1,029	251
Interest expense	(48,053)	(48,280)
Miscellaneous income	0	125
Permits	0	650
Donations	0	0
Grant revenue	0	76,723
Net non-operating revenues (expenses)	<u>(47,024)</u>	<u>29,469</u>
Net income (loss) before transfers	(59,446)	0
Operating transfers	<u>12,532</u>	<u>0</u>
Changes in net assets	(46,914)	33,611
Net assets, beginning of year	<u>1,089,744</u>	<u>1,056,133</u>
Net assets, end of year	\$ <u>1,042,830</u>	\$ <u>1,089,744</u>

The Statement of Revenues, Expenses and Changes in Net Assets reflects a decrease in nets assets of \$46,914 from 2005 to 2006.

In fiscal 2006, operating revenues increased by \$3,109, or 3.3%. Operating expenses increased by \$19,673, or 22.5%, primarily as a result of repairs on a new system, extra labor for PeopleService and wages for administration.

#### Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financial investing activities. Cash provided by operating activities includes sewer sales reduced by payments for operations. Cash used by capital and related financial activities includes the acquisition and construction of capital assets and the payment of interest and revenue notes includes interest income. Cash provided by investing activities includes grants, interest and other income.

#### **Budgetary Highlights**

The City amended its budget in 2006. The Sewer Enterprise Fund did not exceed the amount budgeted in the business type function for that year.

### Capital Assets

A summary of capital assets, net of accumulated depreciation, for the years ended June 30, 2006 and 2005 is as follows:

	June 30,	
	2006	2005
Capital assets	\$ 2,293,775	\$ 2,293,775
Less accumulated depreciation	<u>156,053</u>	<u>97,869</u>
	<u>\$ 2,137,722</u>	<u>\$ 2,195,906</u>

Depreciation expense totaled \$58,184 for 2006, and \$58,184 for 2005.

### Long-Term Debt

At June 30, 2006 and 2005, the Fund had \$1,135,655 and \$1,136,000, respectively, in sewer revenue debt outstanding.

### Economic Factors

The Sewer Enterprise Fund of the City of Crescent did not improve its financial position during the current fiscal year. The current condition of the economy continues to be a concern for Utilities officials. A reality that is a challenge for the Utilities is:

- Some of the expenses need to be reviewed to ensure proper split between the water and sewer enterprises.

The Utility anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Utility's ability to react to unknown issues.

### Contacting the Fund's Financial Management

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Fund's finances and to show the Fund's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Crescent, Crescent, Iowa.

## **Basic Financial Statements**

**Sewer Enterprise Fund of the City of Crescent  
Statements of Net Assets  
June 30, 2006 and 2005**

	ASSETS	
	2006	2005
Current Assets		
Unrestricted:		
Cash	\$ 1,046	\$ 2,620
Accounts receivable	3,033	3,326
Unbilled usage	8,906	7,886
Sales tax refund receivable	22,500	22,500
Prepaid Insurance	1,466	1,102
Total unrestricted current assets	36,951	37,434
Restricted:		
Debt service fund	63,911	48,280
Total restricted current assets	63,911	48,280
Total current assets	100,862	85,714
Property and Equipment		
Sewer system	2,269,887	2,269,887
Equipment	23,888	23,888
	2,293,775	2,293,775
Less accumulated depreciation	156,053	97,869
	2,137,722	2,195,906
Other Restricted Assets		
Debt reserve fund	24,598	18,156
Funded depreciation	11,000	22,000
	35,598	40,156
	\$ 2,274,182	\$ 2,321,776
LIABILITIES AND NET ASSETS		
Current Liabilities		
Payable from unrestricted current assets:		
Accounts payable	\$ 1,150	\$ 1,603
Retainage payable	46,149	46,149
	47,299	47,752
Payable from restricted current assets:		
Accrued interest	48,398	48,280
Current portion of long term debt	12,163	-
	60,561	48,280
Total current liabilities	107,860	96,032
Long-Term Liabilities		
Sewer revenue notes	1,123,492	1,136,000
Net Assets		
Invested in capital assets, net of related debt	1,002,067	1,059,906
Restricted for:		
Debt reserve	24,598	18,156
Funded depreciation	11,000	22,000
Unrestricted	5,165	(10,318)
	1,042,830	1,089,744
	\$ 2,274,182	\$ 2,321,776

See accompanying notes to financial statements

**Sewer Enterprise Fund of the City of Crescent  
Statements of Revenues, Expenses and  
Changes in Net Assets  
Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Operating Revenues		
Sewer fees	\$ 94,611	\$ 91,502
Operating Expenses		
Contract services	29,034	21,683
Depreciation	58,184	58,184
Insurance	1,988	694
Office	144	276
Repairs	1,224	5,305
Salaries and benefits	14,881	181
Supplies	212	-
Utilities	1,366	1,037
Total operating expenses	<u>107,033</u>	<u>87,360</u>
Operating income	(12,422)	4,142
Non-operating Revenues		
Interest income	1,029	251
Interest expense	(48,053)	(48,280)
Miscellaneous income	-	125
Permits	-	650
Grant revenue	-	76,723
Net non-operating revenues	<u>(47,024)</u>	<u>29,469</u>
Net income (loss) before operating transfers	(59,446)	33,611
Operating transfers from general fund	<u>12,532</u>	<u>-</u>
Changes in net assets	(46,914)	33,611
Net assets, beginning of year	<u>1,089,744</u>	<u>1,056,133</u>
Net assets, end of year	<u>\$ 1,042,830</u>	<u>1,089,744</u>

See accompanying notes to financial statements

**Exhibit C  
Continued**

**Sewer Enterprise Fund of the City of Crescent  
Statements of Cash Flows  
Years Ended June 30, 2006 and 2005**

	2006	2005
Cash Flows From Operating Activities:		
Cash received from customers	\$ 93,731	89,500
Cash payments for goods and services	(34,703)	(30,712)
Cash payments to employees	(14,810)	(177)
Net cash provided by operating activities	44,218	58,611
Cash Flows From Noncapital Financing Activities:		
Operating transfers	12,532	-
Net cash provided by noncapital financing activities	12,532	-
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	-	(83,533)
Interest paid on revenue notes	(47,935)	(36,375)
Principal paid on revenue notes	(345)	-
Net cash used for capital and related financing activities	(48,280)	(119,908)
Cash Flows From Investing Activities:		
Interest received on investments	1,029	251
Miscellaneous income received	-	775
Grant and donor income received	-	76,723
Net cash provided by investing activities	1,029	77,749
Net Increase in Cash	9,499	16,452
Cash, Beginning of Year	91,056	74,604
Cash, End of Year	\$ 100,555	91,056
Cash Consists of the Following Amounts:		
Unrestricted:		
Cash	\$ 1,046	2,620
Restricted:		
Debt service fund	63,911	48,280
Debt reserve fund	24,598	18,156
Funded depreciation	11,000	22,000
	\$ 100,555	91,056
Reconciliation of Operating Income to Net Cash provided by Operating Activities:		
Net Operating Income	\$ (12,422)	4,142
Adjustments to reconcile Operating Income to Net Cash provided by Operating Activities:		
Depreciation	58,184	58,184
Net (increase) decrease in:		
Accounts receivable	293	(1,737)
Unbilled usage	(1,020)	(247)
Prepaid insurance	(364)	(742)
Net increase (decrease) in:		
Accounts payable	(291)	(975)
Taxes payable	(162)	(14)
	\$ 44,218	58,611

See accompanying notes to financial statements

**Sewer Enterprise Fund of the City of Crescent**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

**NOTE 1 Summary of Significant Accounting Policies**

A. Reporting Entity

These financial statements present only the Sewer Enterprise Fund of the City of Crescent. They do not purport to, and do not present the financial statements of the City of Crescent, Iowa. The Sewer Enterprise Fund is governed by the City Council.

B. Basis of Presentation

Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Enterprise Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. Sewer revenues are based on billing rates that are applied to customers' accounts based on their consumption of water. The Sewer Enterprise Fund of the City of Crescent's records estimated unbilled revenues at the end of the accounting periods. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Sewer Enterprise Fund applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

**Sewer Enterprise Fund of the City of Crescent  
Notes to Financial Statements  
June 30, 2006 and 2005**

**NOTE 1 Summary of Significant Accounting Policies – Continued**

D. Assets, Liabilities and Net Investments

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations. Capital assets are defined by the Sewer Enterprise Fund as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Sewer system	\$ 5,000
Equipment	2,000

Capital assets of the Enterprise Fund are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful lives (In Years)
Sewer system	40 Years
Equipment	10 years

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 did not exceed the amounts budgeted. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted.

E. Assets and Net Assets

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash and Cash Equivalents – The Sewer Enterprise Fund considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Restricted Assets and Net Assets – Funds set aside for debt service requirements are classified as restricted.

**Sewer Enterprise Fund of the City of Crescent  
Notes to Financial Statements  
June 30, 2006 and 2005**

**NOTE 2 Cash and Investments**

The Sewer Enterprise Fund's deposits in banks at June 30, 2006 and 2005 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 depositories to insure there will be no loss of public funds.

The Sewer Enterprise Fund 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 Utility Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trust; and warrants or improvement certificates of a drainage district.

The Sewer Enterprise Fund had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No.3.

**NOTE 3 Capital Assets**

A summary of changes in capital assets for the years ended June 30, 2006 and 2005 are as follows:

	Balance 6/30/2004	Additions Depr Exp	Balance 6/30/2005	Additions Depr Exp	Balance 6/30/2006
Sewer System	\$ 2,231,834	\$ 38,053	\$ 2,269,887	\$ -	\$ 2,269,887
Equipment	23,888	-	23,888	-	23,888
	<u>2,255,722</u>	<u>38,053</u>	<u>2,293,775</u>	<u>-</u>	<u>2,293,775</u>
Less accumulated depreciation	<u>39,685</u>	<u>58,184</u>	<u>97,869</u>	<u>58,184</u>	<u>156,053</u>
Capital assets, net	\$ <u>2,216,037</u>	\$ <u>(20,131)</u>	<u>2,195,906</u>	\$ <u>(58,184)</u>	<u>2,137,722</u>

**NOTE 4 Long-Term Debt**

A summary of changes in long-term debt for the years ended June 30, 2006 and 2005 is as follows:

	Issue Date	Balance 06/30/04	Additions	Balance 06/30/05	Additions/ Payments	Balance 06/30/06
Sewer Revenue Notes	Sept 29, 2003	\$ 911,000	\$ -	\$ 911,000	\$ 292	\$ 910,708
Sewer Revenue Notes	Sept 29, 2003	225,000	-	225,000	53	224,947
		<u>\$ 1,136,000</u>	<u>\$ -</u>	<u>\$ 1,136,000</u>	<u>\$ 345</u>	<u>\$ 1,135,655</u>

**Sewer Enterprise Fund of the City of Crescent**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

**NOTE 4 Long-Term Debt – Continued**

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

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2007	4.25 %	\$ 12,163	\$ 48,625	\$ 60,788
2008	4.25 %	13,040	47,748	60,788
2009	4.25 %	13,594	47,194	60,788
2010	4.25 %	14,172	46,616	60,788
2011	4.25 %	14,774	46,014	60,788
2012-2016	4.25 %	83,838	220,102	303,940
2017-2021	4.25 %	103,234	200,706	303,940
2022-2026	4.25 %	127,117	176,823	303,940
2027-2031	4.25 %	156,525	147,415	303,940
2032-2036	4.25 %	192,736	111,204	303,940
2037-2041	4.25 %	237,325	66,615	303,940
2042-2044	4.25 %	167,137	14,368	181,505
		<u>\$ 1,135,655</u>	<u>\$ 1,173,430</u>	<u>\$ 2,309,085</u>

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sinking account for the purpose of making the principal and interest payments when due.
- (c) At the time of delivery of the notes, \$6,500 shall be deposited into a principal and interest reserve account, and \$6,079 each July 1, until a full annual payment of \$60,788 is accumulated. These funds shall be used for the payment of principal and interest on the notes if, for any reason, funds on deposit in the sinking account are insufficient to pay such when due.
- (d) At the time of delivery of the notes, \$11,000 shall be set aside annually to fund depreciation. These funds shall be used to pay for capital improvements to the sewer system.

The Enterprise Fund had insufficient funds to fund depreciation for the year ended June 30, 2006.

**NOTE 5 Interest Costs**

Interest costs are included in the financial statements as follows:

<u>06/30/06</u>	<u>06/30/05</u>
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**Sewer Enterprise Fund of the City of Crescent**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

Expensed	\$	<u>48,053</u>	\$	<u>48,280</u>
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**NOTE 6 Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding Third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if sufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Enterprise Fund's annual contributions to the Pool for the years ended June 30, 2006 and 2005 were \$1,202 and \$1,009, respectively.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of

**Sewer Enterprise Fund of the City of Crescent**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006 and 2005, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

**NOTE 6 Risk Management - Continued**

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with a surety bond. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past two fiscal years.

**NOTE 7 Construction Contracts and Commitments**

The Sewer Enterprise Fund had the following contract commitments at June 30, 2006 and 2005:

<u>Project</u>	<u>Estimated Total Contract Price</u>	<u>Paid to June 30, 2005</u>	<u>Remaining Commitment</u>	<u>Construction Costs Payable</u>	<u>Retainages Payable</u>
Sewer Construction	\$ 1,322,981	\$ 1,276,832	\$ 46,149	\$ -	\$ 46,149

The construction company has filed a claim for payment of the retainage. The City is holding the retainage as a counterclaim for breach of contract for not constructing a sewer system in a good or workman like manner.

**NOTE 8 Commitments**

The Sewer Enterprise Fund has contracted for operation and maintenance services, and reading and billing services, for a combined monthly fee of \$1,003 through January 2007.

**Sewer Enterprise Fund of the City of Crescent  
Notes to Financial Statements  
June 30, 2006 and 2005**

**Required Supplementary Information**

**Sewer Enterprise Fund of the City of Crescent  
Budgetary Comparison Schedule of  
Receipts, Disbursements and Changes in Balances  
- Budget and Actual (Cash Basis) -  
Required Supplementary Information  
Year Ended June 30, 2006**

	<u>Actual</u>	<u>Budget</u>	<u>Budget to Total Variance</u>
Receipts:			
Use of money and property	\$ 1,029	-	1,029
Charges for service	<u>93,731</u>	<u>91,000</u>	<u>2,731</u>
Total revenues	94,760	91,000	3,760
Disbursements:			
Business type activities	<u>97,793</u>	<u>99,000</u>	<u>1,207</u>
Total production expense			
Excess of receipts over disbursements	(3,033)	<u>(8,000)</u>	<u>4,967</u>
Operating transfers from general fund	<u>12,532</u>		
Net increase in net assets	9,499		
Beginning net assets	<u>91,056</u>		
Ending net assets	<u>\$ 100,555</u>		

See accompanying independent auditors' report

**Sewer Enterprise Fund of the City of Crescent  
Budget to GAAP Reconciliation  
Required Supplementary Information  
Year Ended June 30, 2006**

	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
Revenues	\$ 94,760	880	95,640
Expenditures/Expenses	<u>97,793</u>	<u>57,293</u>	<u>155,086</u>
Net	(3,033)	(56,413)	(59,446)
Other financing sources	12,532	-	12,532
Beginning net assets	<u>91,056</u>	<u>998,688</u>	<u>1,089,744</u>
Ending net assets	<u>\$ 100,555</u>	<u>942,275</u>	<u>1,042,830</u>

See accompanying independent auditors' report

**Sewer Enterprise Fund of the City of Crescent  
 Budgetary Comparison Schedule of  
 Receipts, Disbursements and Changes in Balances  
 - Budget and Actual (Cash Basis) -  
 Required Supplementary Information  
 Year Ended June 30, 2005**

	<u>Actual</u>	<u>Budget</u>	<u>Budget to Total Variance</u>
Receipts:			
Use of money and property	\$ 251	-	251
Intergovernmental	76,723	-	76,723
Charges for service	89,500	100,000	(10,500)
Miscellaneous	775	-	775
Total revenues	<u>167,249</u>	<u>100,000</u>	<u>67,249</u>
Disbursements:			
Business type activities	<u>150,797</u>	<u>65,500</u>	<u>(85,297)</u>
Total production expense			
Excess of receipts over disbursements	16,452	<u>34,500</u>	<u>(18,048)</u>
Beginning net assets	<u>74,604</u>		
Ending net assets	<u>\$ 91,056</u>		

See accompanying independent auditors' report  
**Sewer Enterprise Fund of the City of Crescent**

**Budget to GAAP Reconciliation  
Required Supplementary Information  
Year Ended June 30, 2005**

	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
Revenues	\$ 167,249	2,002	169,251
Expenditures/Expenses	150,797	(15,157)	135,640
Net	<u>16,452</u>	<u>17,159</u>	<u>33,611</u>
Beginning net assets	<u>74,604</u>	<u>981,529</u>	<u>1,056,133</u>
Ending net assets	<u><u>\$ 91,056</u></u>	<u><u>998,688</u></u>	<u><u>1,089,744</u></u>

See accompanying independent auditors' report

**Sewer Enterprise Fund of the City of Crescent**  
**Notes to Required Supplementary Information – Budgetary Reporting**  
**Years Ended June 30, 2006 and 2005**

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. The budget for the Sewer Enterprise Fund only is reflected in the budgetary comparison schedules. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The budget was not amended for the Sewer Enterprise Fund for the years ended June 30, 2006 and 2005.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted.

**Sewer Enterprise Fund of the City of Crescent  
Other Supplementary Information**

**Sewer Enterprise Fund of the City of Crescent**  
**Budgetary Comparison Schedule of Revenues and Expenditures**  
**- Actual to Budget -**  
**(Prepared for the United States Department of Agriculture)**  
**Year Ended June 30, 2006**

	Actual	Budget	Budget to Actual Variance
Revenues:			
Sewer sales	\$ 94,611	96,350	(1,739)
Interest	1,029	177	852
	95,640	96,527	(887)
Expenditures:			
Contract services	29,034	12,460	(16,574)
Depreciation	58,184	28,400	(29,784)
Insurance	1,988	-	(1,988)
Interest	48,053	48,280	227
Office	144	150	6
Repairs	1,224	500	(724)
Salaries and benefits	14,881	-	(14,881)
Supplies	212	-	(212)
Utilities	1,366	1,500	134
Total operating expenses	155,086	91,290	(63,993)
Excess of revenues over expenditures	\$ (59,446)	5,237	(64,683)

See accompanying independent auditors' report

**Sewer Enterprise Fund of the City of Crescent**  
**Budgetary Comparison Schedule of Revenues and Expenditures**  
**- Actual to Budget -**  
**(Prepared for the United States Department of Agriculture)**  
**Year Ended June 30, 2005**

	<u>Actual</u>	<u>Budget</u>	<u>Budget to Actual Variance</u>
Revenues:			
Sewer sales	\$ 91,502	116,055	(24,553)
Interest	251	98	153
Miscellaneous income	125	-	125
Permits	650	-	650
Grant revenue	76,723	-	76,723
	<u>169,251</u>	<u>116,153</u>	<u>53,098</u>
Expenditures:			
Contract services	21,683	16,264	(5,419)
Depreciation	58,184	28,400	(29,784)
Insurance	694	480	(214)
Interest	48,280	36,675	(11,605)
Office	276	2,452	2,176
Repairs	5,305	23,970	18,665
Salaries and benefits	181	111	(70)
Utilities	1,037	591	(446)
Total operating expenses	<u>135,640</u>	<u>108,943</u>	<u>(26,697)</u>
Excess of revenues over expenditures	<u>\$ 33,611</u>	<u>7,210</u>	<u>26,401</u>

See accompanying independent auditors' report

**Independent Auditors' 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***

October 30, 2006

Independent Auditors' Report on Internal Control Over Financial Reporting  
and on Compliance Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of Sewer Enterprise Fund of the City of Crescent, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sewer Enterprise Fund of the City of Crescent'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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Crescent's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in Part I of the accompanying Schedule of Findings.

A material weakness is a 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 necessary disclose all reportable conditions that are considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Continued. . .

October 30, 2006  
Sewer Enterprise Fund of the City of Crescent  
Independent Auditors' Report on Compliance

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sewer Enterprise Fund of the City of Crescent'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 or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Enterprise Fund'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 Enterprise Fund. 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 Crescent and other parties to whom the City of Crescent 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 Crescent 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.

**Sewer Enterprise Fund of the City of Crescent  
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 CONDITION:**

**I-A-06 Personnel Manual**

Comment – The City currently provides each employee a job description. However, the City has not documented its policy regarding payment of benefits.

Recommendation – The City should document its personnel policies and distribute a copy to all employees. An office copy should be accessible for reference.

Response – We are in the process of developing a personnel manual

Conclusion – Response accepted

**Sewer Enterprise Fund of the City of Crescent  
Schedule of Findings  
Year Ended June 30, 2006**

**Part II: Other Findings Related to Statutory Reporting:**

**II-A-06** Certified Budget

Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.

**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 Enterprise Fund money for travel expenses of spouses of Enterprise Fund officials or employees were noted.

**II-D-06** Business Transactions

No business transactions were noted between the Enterprise Fund or City officials or employees.

**II-E-06** Bond Coverage

Surety bond coverage of Enterprise Fund 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

Comment - No transactions were found that we believe should have been approved in the Board minutes but were not. Copies of minutes were available, but not all official minutes were printed and bound for signatures.

The City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should comply with Chapter 321 of the Code of Iowa, and should update the minute record book. All minutes should be signed in accordance with Chapter 380.7 of the Code of Iowa.

Response – We will publish gross salaries as required, and we will update the minute record book when time permits.

Conclusion – Response accepted.

**Sewer Enterprise Fund of the City of Crescent  
Schedule of Findings  
Year Ended June 30, 2006**

**Part II: Other Findings Related to Statutory Reporting – Continued:**

**II-G-06 Enterprise Debt**

Comment – The City has an insufficient cash balance to set aside monies to fund depreciation as required by the provisions of the Sewer Bond Resolution.

Recommendation – The City should review alternatives to meet this requirement. The City should first review its allocation of costs to the Sewer Enterprise and then, if necessary, consider a rate increase.

Response – We will investigate this matter further in order to comply with the provisions as required.

Conclusion – Response accepted.

**II-H-06 Deposits and Investments**

Comment - We noted no instances of noncompliance with the deposits and investment provisions of Chapter 12B and 12C of the Code of Iowa. However, the City has not adopted a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the Code of Iowa.

Response – We will adopt an investment policy accordingly.

Conclusion – Response accepted.

# **NEWS RELEASE**

## **SEWER ENTERPRISE FUND OF THE CITY OF CRESCENT**

Crescent, Iowa 51526

Auditors for Schroer & Associates, P.C., 300 West Broadway, Suite 41, Council Bluffs, Iowa today released an audit report on the Sewer Enterprise Fund of the City of Crescent, Iowa.

Schroer & Associates, P.C. reported that the Enterprise Fund's revenues totaled \$95,640 for the year ended June 30, 2006. The revenues included \$94,611 in sewer sales, and \$1,029 in interest income.

Expenses totaled \$155,086 for the year ended June 30, 2006. The expenses included \$58,184 for depreciation, \$48,053 for interest, and \$29,034 for contracted services.

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

November 28, 2006

USDA Rural Development  
Attn: Dee Fischer  
511 W. 7<sup>th</sup> Street  
P.O. Box 405  
Atlantic, IA 50022-0405

Enclosed please find one copy of the independent auditors' report of Sewer Enterprise Fund of the City of Crescent for the years ended June 30, 2006 and 2005, for your records.

SCHROER & ASSOCIATES, P.C.

Diane McGrain  
Shareholder

DM/sh  
Enc.

November 30, 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 Sewer Enterprise Fund of the City of Crescent for the years ended June 30, 2006 and 2005.

- 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.

Sewer Enterprise Fund of the City of Crescent

Hours Worked: 41.25

November 30, 2006

Mary  
Sewer Enterprise Fund of the  
City of Crescent  
P.O. Box 16  
Crescent, IA 51526

Dear Mary:

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