

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

June 30, 2007 and 2006

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**City of Crescent
Officials**

| <u>Name</u> | <u>Title</u> | <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 |
| Vicki Overly | Treasurer | Indefinite |

November 2, 2007

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, 2007 and 2006, 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, 2007 and 2006, 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, 2007 and 2006, 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...

November 2, 2007
Sewer Enterprise Fund of the City of Crescent
Independent Auditors' Report

In accordance with *Government Auditing Standards* we have also issued our report dated November 2, 2007, 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 25, are not required parts of the basic financial statements, but are 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, 2007. We encourage readers to consider this information in conjunction with the Fund's financial statements, which follow.

Financial Highlights

- Sewer operating revenues increased 4.7%, or \$4,466, from fiscal 2006 to fiscal 2007.
- Sewer operating expenses decreased 21.3%, or \$22,762, from fiscal 2006 to fiscal 2007.
- Sewer net operating income increased \$27,288, from fiscal 2006 to fiscal 2007

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 2007 totaled approximately \$1,012,191. This compares to approximately \$1,042,830 for fiscal 2006. A summary of the Fund's net assets is presented below.

| | Net Assets | |
|---|---------------------|---------------------|
| | June 30, | |
| | 2007 | 2006 |
| Current and other assets | \$ 150,663 | \$ 136,460 |
| Capital assets | <u>2,079,538</u> | <u>2,137,722</u> |
| | 2,230,201 | 2,274,182 |
| Current liabilities | 107,381 | 95,697 |
| Long term liabilities | <u>1,110,629</u> | <u>1,135,655</u> |
| | <u>1,218,010</u> | <u>1,231,352</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 955,877 | 1,002,067 |
| Restricted for: | | |
| Debt reserve | 30,682 | 24,598 |
| Funded depreciation | 9,000 | 11,000 |
| Unrestricted | <u>16,632</u> | <u>5,165</u> |
| Total net assets | \$ <u>1,012,191</u> | \$ <u>1,042,830</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, 2007 and 2006 is presented as follows:

| Changes in Net Assets | |
|-----------------------|--|
| Year ended June 30, | |

| | <u>2007</u> | <u>2006</u> |
|---------------------------------------|---------------------|---------------------|
| Operating revenues: | | |
| Sewer fees | \$ 99,077 | \$ 94,611 |
| Operating expenses: | | |
| Contract services | 7,017 | 29,034 |
| Depreciation | 58,184 | 58,184 |
| Insurance | 1,782 | 1,988 |
| Office | 2,454 | 144 |
| Repairs | 1,290 | 1,224 |
| Salaries and benefits | 11,345 | 14,881 |
| Supplies | 0 | 212 |
| Utilities | 2,199 | 1,366 |
| Total operating expenses | <u>84,271</u> | <u>107,033</u> |
| Operating income | 14,806 | (12,422) |
| Non-operating revenue: | | |
| Interest income | 1,623 | 1,029 |
| Interest expense | (47,759) | (48,053) |
| Miscellaneous income | 391 | 0 |
| Permits | 300 | 0 |
| Net non-operating revenues (expenses) | <u>(45,445)</u> | <u>(47,024)</u> |
| Net loss before transfers | (30,639) | (59,446) |
| Operating transfers | <u>0</u> | <u>12,532</u> |
| Changes in net assets | (30,639) | (46,914) |
| Net assets, beginning of year | <u>1,042,830</u> | <u>1,089,744</u> |
| Net assets, end of year | <u>\$ 1,012,191</u> | <u>\$ 1,042,830</u> |

The Statement of Revenues, Expenses and Changes in Net Assets reflects a decrease in nets assets of \$30,639 from 2006 to 2007.

In fiscal 2007, operating revenues increased by \$4,466, or 4.7%. Operating expenses decreased by \$22,762, or 21.3%, primarily as a result of renegotiating salaries to be paid from other funds and PeopleService contract being split between City and Water.

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 2007. 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, 2007 and 2006 is as follows:

| | June 30, | |
|-------------------------------|---------------------|---------------------|
| | <u>2007</u> | <u>2006</u> |
| Capital assets | \$ 2,293,775 | \$ 2,293,775 |
| Less accumulated depreciation | <u>214,237</u> | <u>156,053</u> |
| | <u>\$ 2,079,538</u> | <u>\$ 2,137,722</u> |

Depreciation expense totaled \$58,184 for 2007 and 2006.

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 continuing to keep expenses at a minimum in order to satisfy the terms of the bond resolution.

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, 2007 and 2006**

| ASSETS | | 2007 | 2006 |
|---|----|-------------------------|----------------------------|
| | | <u> </u> | <u> </u> |
| Current Assets | | | |
| Unrestricted: | | | |
| Cash | \$ | - | \$ 1,046 |
| Accounts receivable | | 3,798 | 3,033 |
| Unbilled usage | | 8,370 | 8,906 |
| Sales tax refund receivable | | 22,500 | 22,500 |
| Prepaid Insurance | | <u>1,552</u> | <u>1,466</u> |
| Total unrestricted current assets | | 36,220 | 36,951 |
| Restricted: | | | |
| Debt service fund | | <u>74,761</u> | <u>63,911</u> |
| Total restricted current assets | | 74,761 | 63,911 |
| Total current assets | | <u>110,981</u> | <u>100,862</u> |
| Property and Equipment | | | |
| Sewer system | | 2,269,887 | 2,269,887 |
| Equipment | | <u>23,888</u> | <u>23,888</u> |
| | | 2,293,775 | 2,293,775 |
| Less accumulated depreciation | | <u>214,237</u> | <u>156,053</u> |
| | | 2,079,538 | 2,137,722 |
| Other Restricted Assets | | | |
| Debt reserve fund | | 30,682 | 24,598 |
| Funded depreciation | | <u>9,000</u> | <u>11,000</u> |
| | | 39,682 | 35,598 |
| | \$ | <u><u>2,230,201</u></u> | \$ <u><u>2,274,182</u></u> |
| LIABILITIES AND NET ASSETS | | | |
| Current Liabilities | | | |
| Payable from unrestricted current assets: | | | |
| Cash due bank | \$ | 347 | \$ - |
| Accounts payable | | 490 | 1,150 |
| Retainage payable | | <u>46,149</u> | <u>46,149</u> |
| | | 46,986 | 47,299 |
| Payable from restricted current assets: | | | |
| Accrued interest | | 47,363 | 48,398 |
| Current portion of long term debt | | <u>13,032</u> | <u>12,163</u> |
| | | 60,395 | 60,561 |
| Total current liabilities | | <u>107,381</u> | <u>107,860</u> |
| Long-Term Liabilities | | | |
| Sewer revenue notes | | 1,110,629 | 1,123,492 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | | 955,877 | 1,002,067 |
| Restricted for: | | | |
| Debt reserve | | 30,682 | 24,598 |
| Funded depreciation | | 9,000 | 11,000 |
| Unrestricted | | <u>16,632</u> | <u>5,165</u> |
| | | <u>1,012,191</u> | <u>1,042,830</u> |
| | \$ | <u><u>2,230,201</u></u> | \$ <u><u>2,274,182</u></u> |

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, 2007 and 2006**

| | 2007 | 2006 |
|---------------------------------------|--------------|-----------|
| Operating Revenues | | |
| Sewer fees | \$ 99,077 | \$ 94,611 |
| Operating Expenses | | |
| Contract services | 7,017 | 29,034 |
| Depreciation | 58,184 | 58,184 |
| Insurance | 1,782 | 1,988 |
| Office | 2,454 | 144 |
| Repairs | 1,290 | 1,224 |
| Salaries and benefits | 11,345 | 14,881 |
| Supplies | - | 212 |
| Utilities | 2,199 | 1,366 |
| Total operating expenses | 84,271 | 107,033 |
| Operating income (loss) | 14,806 | (12,422) |
| Non-operating Revenues | | |
| Interest income | 1,623 | 1,029 |
| Interest expense | (47,759) | (48,053) |
| Miscellaneous income | 391 | - |
| Permits | 300 | - |
| Net non-operating revenues | (45,445) | (47,024) |
| Net loss before operating transfers | (30,639) | (59,446) |
| Operating transfers from general fund | - | 12,532 |
| Changes in net assets | (30,639) | (46,914) |
| Net assets, beginning of year | 1,042,830 | 1,089,744 |
| Net assets, end of year | \$ 1,012,191 | 1,042,830 |

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, 2007 and 2006**

| | 2007 | 2006 |
|---|------------|----------|
| Cash Flows From Operating Activities: | | |
| Cash received from customers | \$ 99,014 | 93,731 |
| Cash payments for goods and services | (15,726) | (34,703) |
| Cash payments to employees | (11,273) | (14,810) |
| Net cash provided by operating activities | 72,015 | 44,218 |
| 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 | - | - |
| Interest paid on revenue notes | (48,794) | (47,935) |
| Principal paid on revenue notes | (11,994) | (345) |
| Net cash used for capital and related financing activities | (60,788) | (48,280) |
| Cash Flows From Investing Activities: | | |
| Interest received on investments | 1,623 | 1,029 |
| Miscellaneous income received | 691 | - |
| Grant and donor income received | - | - |
| Net cash provided by investing activities | 2,314 | 1,029 |
| Net Increase in Cash | 13,541 | 9,499 |
| Cash, Beginning of Year | 100,555 | 91,056 |
| Cash, End of Year | \$ 114,096 | 100,555 |
| Cash Consists of the Following Amounts: | | |
| Unrestricted: | | |
| Cash | \$ - | 1,046 |
| Cash due bank | (347) | - |
| Restricted: | | |
| Debt service fund | 74,761 | 63,911 |
| Debt reserve fund | 30,682 | 24,598 |
| Funded depreciation | 9,000 | 11,000 |
| | \$ 114,096 | 100,555 |
| Reconciliation of Operating Income to Net Cash provided by Operating Activities: | | |
| Net Operating Income | \$ 14,806 | (12,422) |
| Adjustments to reconcile Operating Income to Net Cash Provided by Operating Activities: | | |
| Depreciation | 58,184 | 58,184 |
| Net (increase) decrease in: | | |
| Accounts receivable | (765) | 293 |
| Unbilled usage | 536 | (1,020) |
| Prepaid insurance | (86) | (364) |
| Net increase (decrease) in: | | |
| Accounts payable | (660) | (453) |
| | \$ 72,015 | 44,218 |

See accompanying notes to financial statements

Sewer Enterprise Fund of the City of Crescent
Notes to Financial Statements
June 30, 2007 and 2006

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, 2007 and 2006**

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 years ended June 30, 2007 and 2006, disbursements did not exceed 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, 2007 and 2006

NOTE 2 Cash and Investments

The Sewer Enterprise Fund's deposits in banks at June 30, 2007 and 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 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, 2007 and 2006 are as follows:

| | Balance 6/30/2005 | Additions Depr Exp | Balance 6/30/2006 | Additions Depr Exp | Balance 6/30/2007 |
|-------------------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------|
| Sewer System | \$ 2,269,887 | \$ - | \$ 2,269,887 | \$ - | \$ 2,269,887 |
| Equipment | 23,888 | - | 23,888 | - | 23,888 |
| | <u>2,293,775</u> | - | <u>2,293,775</u> | - | <u>2,293,775</u> |
| Less accumulated depreciation | 97,869 | 58,184 | 156,053 | 58,184 | 214,237 |
| Capital assets, net | \$ <u>2,195,906</u> | \$ <u>(58,184)</u> | <u>2,137,722</u> | \$ <u>(58,184)</u> | <u>2,079,538</u> |

NOTE 4 Long-Term Debt

A summary of changes in long-term debt for the years ended June 30, 2007 and 2006 is as follows:

| | Issue Date | Balance 06/30/05 | Payments | Balance 06/30/06 | Payments | Balance 06/30/07 |
|---------------------|---------------|---------------------|---------------|---------------------|------------------|---------------------|
| Sewer Revenue Notes | 09/29/03 | \$ <u>1,136,000</u> | \$ <u>345</u> | \$ <u>1,135,655</u> | \$ <u>11,994</u> | \$ <u>1,123,661</u> |

Sewer Enterprise Fund of the City of Crescent
Notes to Financial Statements
June 30, 2007 and 2006

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 |
|-------------------------|-------------------|---------------------|---------------------|---------------------|
| 2008 | 4.25 % | \$ 13,032 | \$ 47,756 | \$ 60,788 |
| 2009 | 4.25 % | 13,586 | 47,202 | 60,788 |
| 2010 | 4.25 % | 14,164 | 46,624 | 60,788 |
| 2011 | 4.25 % | 14,766 | 46,022 | 60,788 |
| 2012 | 4.25 % | 15,393 | 45,395 | 60,788 |
| 2013-2017 | 4.25 % | 87,353 | 216,587 | 303,940 |
| 2018-2022 | 4.25 % | 107,562 | 196,378 | 303,940 |
| 2023-2027 | 4.25 % | 132,446 | 171,494 | 303,940 |
| 2028-2032 | 4.25 % | 163,087 | 140,853 | 303,940 |
| 2033-2037 | 4.25 % | 200,817 | 103,123 | 303,940 |
| 2038-2042 | 4.25 % | 247,275 | 56,665 | 303,940 |
| 2043-2044 | 4.25 % | 114,180 | 7,326 | 121,506 |
| | | <u>\$ 1,123,661</u> | <u>\$ 1,125,425</u> | <u>\$ 2,249,086</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 years ended June 30, 2007 and 2006.

NOTE 5 Interest Costs

Interest costs are included in the financial statements as follows:

| | <u>06/30/07</u> | <u>06/30/06</u> |
|----------|------------------|------------------|
| Expensed | \$ <u>47,759</u> | \$ <u>48,053</u> |

Sewer Enterprise Fund of the City of Crescent
Notes to Financial Statements
June 30, 2007 and 2006

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 556 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, 2007 and 2006 were \$1,268 and \$1,202, 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 \$3,000,000 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 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, 2007 and 2006, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

**Sewer Enterprise Fund of the City of Crescent
Notes to Financial Statements
June 30, 2007 and 2006**

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 three fiscal years.

NOTE 7 Construction Contracts and Commitments

The Sewer Enterprise Fund had the following contract commitments at June 30, 2007 and 2006:

| Project | Estimated Total Contract Price | Paid to June 30, 2005 | Remaining Commitment | Construction Costs Payable | Retainages Payable |
|-----------------------|-----------------------------------|--------------------------|-------------------------|-------------------------------|-----------------------|
| 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.

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, 2007**

| | <u>Actual</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Budget to Total Variance</u> |
|---|-------------------|----------------------------|-------------------------|---|
| Receipts: | | | | |
| Use of money and property | \$ 1,623 | - | - | 1,623 |
| Charges for service | 98,485 | 89,200 | 89,200 | 9,285 |
| Miscellaneous | <u>1,798</u> | <u>-</u> | <u>-</u> | <u>1,798</u> |
| Total revenues | 101,906 | 89,200 | 89,200 | 12,706 |
| Disbursements: | | | | |
| Business type activities | <u>88,365</u> | <u>81,788</u> | <u>91,788</u> | <u>3,423</u> |
| Excess (deficiency) of receipts over (under) disbursements | 13,541 | <u>7,412</u> | <u>(2,588)</u> | <u>16,129</u> |
| Beginning net assets | <u>100,555</u> | | | |
| Ending net assets | <u>\$ 114,096</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, 2007**

| | <u>Cash Basis</u> | <u>Accrual Adjustments</u> | <u>Accrual Basis</u> |
|-----------------------|-----------------------|--------------------------------|--------------------------|
| Revenues | \$ 101,906 | (515) | 101,391 |
| Expenditures/Expenses | 88,365 | 43,665 | 132,030 |
| Net | <u>13,541</u> | <u>(44,180)</u> | <u>(30,639)</u> |
| Beginning net assets | <u>100,555</u> | <u>942,275</u> | <u>1,042,830</u> |
| Ending net assets | <u>\$ 114,096</u> | <u>898,095</u> | <u>1,012,191</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, 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> |
| Excess (deficiency) of receipts over (under) | | | |
| 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 | 97,793 | 57,293 | 155,086 |
| Net | <u>(3,033)</u> | <u>(56,413)</u> | <u>(59,446)</u> |
| 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
Notes to Required Supplementary Information – Budgetary Reporting
Years Ended June 30, 2007 and 2006

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. During the year ended June 30, 2007, one budget amendment increased budgeted disbursements by \$10,000. The budget amendment is reflected in the final budgeted amounts.

**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, 2007

| | Actual | Budget | Budget to Actual Variance |
|--|-------------|----------|---------------------------------|
| Revenues: | | | |
| Sewer sales | \$ 99,077 | 102,000 | (2,923) |
| Interest | 1,623 | 400 | 1,223 |
| Miscellaneous income | 391 | - | 391 |
| Permits | 300 | - | 300 |
| | 101,391 | 102,400 | (1,009) |
| Expenditures: | | | |
| Contract services | 7,017 | 13,700 | 6,683 |
| Depreciation | 58,184 | 58,184 | - |
| Insurance | 1,782 | 1,130 | (652) |
| Interest | 47,759 | 48,625 | 866 |
| Office | 2,454 | 1,700 | (754) |
| Repairs | 1,290 | - | (1,290) |
| Salaries and benefits | 11,345 | 14,000 | 2,655 |
| Utilities | 2,199 | 770 | (1,429) |
| Total operating expenses | 132,030 | 138,109 | 6,079 |
| Excess (deficiency) of revenues over (under) expenditures | \$ (30,639) | (35,709) | 5,070 |

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, 2006

| | Actual | Budget | Budget to Actual Variance |
|--|--------------------|---------------|---------------------------------|
| Revenues: | | | |
| Sewer sales | \$ 94,611 | 96,350 | (1,739) |
| Interest | 1,029 | 177 | 852 |
| | <u>95,640</u> | <u>96,527</u> | <u>(887)</u> |
| 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 | <u>155,086</u> | <u>91,290</u> | <u>(63,993)</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ (59,446)</u> | <u>5,237</u> | <u>(64,683)</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***

November 2, 2007

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, 2007, and have issued our report thereon dated November 2, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Crescent's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Crescent's internal control over financial reporting.

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

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City Crescent's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the Sewer Enterprise Fund of the City of Crescent's financial statements that is more than inconsequential will not be prevented or detected by the City of Crescent's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

Continued...

November 2, 2007
Sewer Enterprise Fund of the City of Crescent
Report on Internal Control

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above are material weaknesses.

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 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, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of 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, 2007**

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-07 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. The cash receipts listing, posting of the cash receipts to the cash receipts journal, reconciling and financial reporting are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – The City Treasurer makes the deposits and reviews the monthly bank statements.

Conclusion – Response acknowledged. In addition, City employees could submit a bank reconciliation and a computer generated check register for each account to the Treasurer for review.

I-B-07 Service Organization Policies

Comment – Per discussion with PeopleService, there is also a lack of segregation of duties among their employees. The same person is responsible for billing, receipting, posting and reconciling of utility billings.

Recommendation – The City should exercise oversight of this service organization and request that policies be established to obtain the maximum internal control possible.

Response – We will review this further.

Conclusion – Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**Sewer Enterprise Fund of the City of Crescent
Schedule of Findings
Year Ended June 30, 2007**

Part II: Other Findings Related to Statutory Reporting:

II-A-07 Certified Budget

Disbursements during the year ended June 30, 2007 did not exceed the amended amounts budgeted.

II-B-07 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-07 Travel Expense

No disbursements of Enterprise Fund money for travel expenses of spouses of Enterprise Fund officials or employees were noted.

II-D-07 Business Transactions

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

II-E-07 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-07 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 Council went into closed session. However, the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa. The City should update the minute record book, and all minutes should be signed in accordance with Chapter 380.7 of the Code of Iowa.

Response – We will update the minute record book when time permits and will document in the future the specific information required by Chapter 21 for closed meetings.

Conclusion – Response accepted.

**Sewer Enterprise Fund of the City of Crescent
Schedule of Findings
Year Ended June 30, 2007**

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

II-G-07 Enterprise Debt

Comment – The Sewer operating account balance had a deficit at June 30, 2007, and the sewer depreciation fund balance was insufficient to meet the requirements of the Sewer Bond Resolution.

Recommendation – The Sewer Bond Resolution requires that rates be sufficiently set to fund the operations of the Sewer Enterprise Fund and fund the loan reserve requirements. The City should review alternatives to meet these requirements. The City should first review its allocation of costs to the Sewer Enterprise and then, if necessary, consider a rate increase.

Response – We reviewed its allocation of costs late in the fiscal year in order to improve the financial condition of the Sewer Enterprise Fund and meet the loan requirements.

Conclusion – Response accepted.

II-H-07 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 \$101,391 for the year ended June 30, 2007. The revenues included \$99,077 in sewer sales, and \$1,623 in interest income.

Expenses totaled \$132,030 for the year ended June 30, 2007. The expenses included \$58,184 for depreciation, \$47,759 for interest, and \$11,345 for salaries and benefits.

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 ??, 2007

USDA Rural Development
Attn: Dee Fischer
511 W. 7th 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, 2007 and 2006, for your records.

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

November ??, 2007

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, 2007 and 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.

Sewer Enterprise Fund of the City of Crescent

Hours Worked:

November ??, 2007

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