



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

January 18, 2013

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Elk Run Heights, Iowa.

The City's receipts totaled \$818,527 for the year ended June 30, 2012. The receipts included \$214,675 in property tax, \$315,453 from charges for service, \$110,417 from operating grants, contributions and restricted interest, \$7,279 from capital grants, contributions and restricted interest, \$135,702 from local option sales tax and \$35,001 from other general receipts.

Disbursements for the year totaled \$884,447, and included \$150,000 for capital projects, \$135,570 for debt service and \$93,688 for public works. Also, disbursements for business type activities totaled \$313,267.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1221-0048-B00F.pdf>.

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CITY OF ELK RUN HEIGHTS
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2012

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City of Elk Run Heights

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
William R. Henninger, II	Mayor	Jan 2012
Dennis Bass	Mayor Pro tem	Jan 2012
Rick Heth	Council Member	Jan 2012
Gary Wurtz	Council Member	Jan 2012
Ron Ratchford	Council Member	Jan 2012
Scott Wroe	Council Member	Jan 2012
Kristi Lundy	Clerk	Indefinite
Bonnie Cross	Deputy Clerk	Indefinite
Heather Prendergrast	Attorney	Indefinite
(After January 2012)		
Gary Wurtz	Mayor	Jan 2014
Dennis Bass	Mayor Pro tem	Jan 2014
Rick Heth	Council Member	Jan 2014
Ron Ratchford	Council Member	Jan 2014
Scott Wroe	Council Member	Jan 2014
Lisa Smock	Council Member	Jan 2014
Kristi Lundy	City Clerk	Indefinite
Bonnie Cross	Deputy Clerk	Indefinite
Heather Prendergast	Attorney	Indefinite

City of Elk Run Heights



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Elk Run Heights, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Elk Run Heights' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2011, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities and each major fund of the City of Elk Run Heights as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 20, 2012 on our consideration of the City of Elk Run Heights' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elk Run Heights' basic financial statements. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elk Run Heights' basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 11 and 28 through 30 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 20, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Elk Run Heights provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2012 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased \$66,815, due primarily to utilizing local option sales tax receipts collected in the current and prior year for capital improvements and redeeming the remaining general obligation notes.
- The cash basis net assets of the City's business type activities increased \$895.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

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

Supplementary Information provides detailed information about the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system and solid waste disposal. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Capital Projects Fund and 4) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water, Sewer and Solid Waste Funds, considered to be major funds of the City.

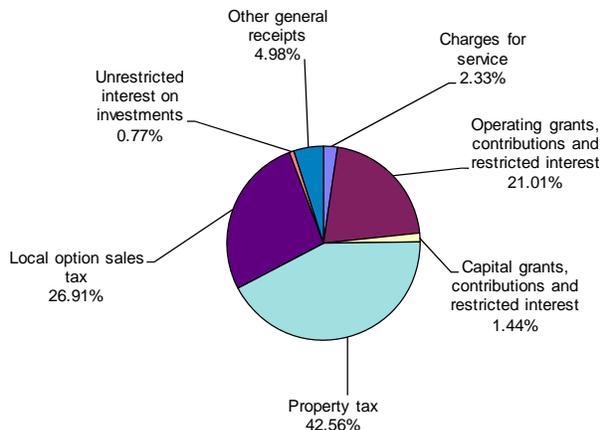
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

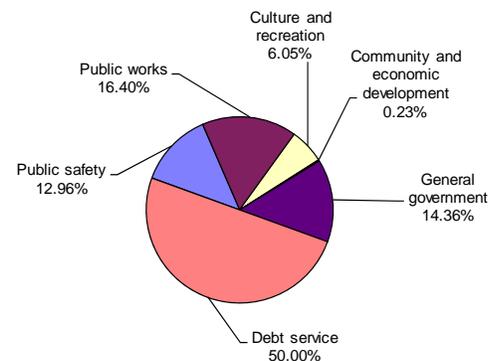
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$225,946 to \$159,131. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2012
Receipts:	
Program receipts:	
Charges for service	\$ 11,750
Operating grants, contributions and restricted interest	105,949
Capital grants, contributions and restricted interest	7,279
General receipts:	
Property tax	214,675
Local option sales tax	135,702
Unrestricted interest on investments	3,902
Other general receipts	25,108
Total receipts	<u>504,365</u>
Disbursements:	
Public safety	74,042
Public works	93,688
Culture and recreation	34,544
Community and economic development	1,307
General government	82,029
Debt service	135,570
Capital projects	150,000
Total disbursements	<u>571,180</u>
Change in cash basis net assets	(66,815)
Cash basis net assets beginning of year	225,946
Cash basis net assets end of year	<u>\$ 159,131</u>

Receipts by Source



Disbursements by Function



The cash basis net assets of the City's governmental activities decreased \$66,815 due primarily to utilizing local option sales tax receipts collected in the current and prior year for capital improvements and redeeming the remaining general obligation notes.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2012
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 89,408
Sewer	162,449
Solid waste	51,846
Operating grants, contributions and restricted interest	4,468
General receipts:	
Unrestricted interest on investments	5,991
Total receipts	<u>314,162</u>
Disbursements:	
Water	95,179
Sewer	164,559
Solid waste	53,529
Total disbursements	<u>313,267</u>
Change in cash basis net assets	895
Cash basis net assets beginning of year	567,178
Cash basis net assets end of year	<u>\$ 568,073</u>

The cash basis net assets of the City's business type activities increased \$895, due primarily to an increase in garbage rates.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Elk Run Heights completed the year, its governmental funds reported a combined fund balance of \$159,131, a decrease of \$66,815 from last year's total of \$225,946. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$57,782 over the prior period to \$132,369. The change in fund balance was due primarily to a decrease in disbursements in the public works and culture and recreation functions.
- The Special Revenue, Road Use Tax Fund cash balance increased \$24,098 from the prior year to \$26,915. The change in fund balance was due primarily to a decrease in the amount of road maintenance and repair projects.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$180,510 from the prior year to \$2,361. The decrease was a result of transfers out of the Local Option Sales Tax Fund to the Capital Projects and Debt Service Funds.
- The Capital Projects Fund cash balance increased \$31,815 to (\$2,514). The change in fund balance was due primarily to increased transfers from the Special Revenue, Road Use Tax Fund for construction work performed on the Gilbertville Road Sanitary Sewer Project.
- No cash balance remains in the Debt Service Fund at year end. The final principal and interest on the general obligation note was paid on April 23, 2012.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$1,764 to \$302,644, due primarily to an increase in water rates charged by the City of Waterloo.
- The Enterprise, Sewer Fund cash balance decreased \$206 to \$247,917.
- The Enterprise, Solid Waste cash balance increased \$2,865 to \$17,512, due primarily to an increase in garbage rates charged to customers and an increase in customer deposits.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on February 14, 2012 and resulted in an increase in disbursements in the capital projects function. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$47,150 more than budgeted. This was primarily due to the City receiving more charges for service and local option sales tax than budgeted.

With the amendment, total disbursements were \$57,776, or 6.1%, less than the amended budget.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities. The City's fiscal year 2013 assessed value has increased \$3,671,699 from the fiscal year 2012 level.

The fiscal year 2013 budget contains total receipts of \$796,561 and disbursements of \$793,192. This budget is lower than the final fiscal year 2012 budget which contained total receipts of \$771,377 and disbursements of \$942,223. The changes in the fiscal year 2013 budget are due to the exclusion of the Gilbertville Road Sanitary Sewer project, which was substantially completed in fiscal year 2012.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$3,400 by the close of fiscal year 2013.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kristi Lundy, City Clerk, 5042 Lafayette Road, Elk Run Heights, Iowa 50707.

City of Elk Run Heights

Basic Financial Statements

City of Elk Run Heights

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2012

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 74,042	4,808	-	-
Public works	93,688	657	105,949	7,279
Culture and recreation	34,544	5,445	-	-
Community and economic development	1,307	-	-	-
General government	82,029	840	-	-
Debt service	135,570	-	-	-
Capital projects	150,000	-	-	-
Total governmental activities	571,180	11,750	105,949	7,279
Business type activities:				
Water	95,179	89,408	-	-
Sewer	164,559	162,449	-	-
Solid waste	53,529	51,846	4,468	-
Total business type activities	313,267	303,703	4,468	-
Total	\$ 884,447	315,453	110,417	7,279

General Receipts:

Property and other city tax levied for general purposes

Local option sales tax

Unrestricted interest on investments

Black Hawk County landfill

Cablevision franchise fees

Miscellaneous

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Streets

Capital improvement

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(69,234)	-	(69,234)
20,197	-	20,197
(29,099)	-	(29,099)
(1,307)	-	(1,307)
(81,189)	-	(81,189)
(135,570)	-	(135,570)
(150,000)	-	(150,000)
(446,202)	-	(446,202)
-	(5,771)	(5,771)
-	(2,110)	(2,110)
-	2,785	2,785
-	(5,096)	(5,096)
(446,202)	(5,096)	(451,298)
214,675	-	214,675
135,702	-	135,702
3,902	5,991	9,893
17,035	-	17,035
6,615	-	6,615
1,458	-	1,458
379,387	5,991	385,378
(66,815)	895	(65,920)
225,946	567,178	793,124
\$ 159,131	568,073	727,204
\$ 26,915	-	26,915
2,361	-	2,361
129,855	568,073	697,928
\$ 159,131	568,073	727,204

City of Elk Run Heights

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2012

	Special Revenue		
	General	Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 212,534	-	-
Other city tax	2,141	-	135,702
Licenses and permits	10,834	-	-
Use of money and property	8,174	-	1,173
Intergovernmental	24,314	105,949	-
Miscellaneous	3,544	-	-
Total receipts	261,541	105,949	136,875
Disbursements:			
Operating:			
Public safety	74,042	-	-
Public works	11,837	81,851	-
Culture and recreation	34,544	-	-
Community and economic development	1,307	-	-
General government	82,029	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	203,759	81,851	-
Excess (deficiency) of receipts over (under) disbursements	57,782	24,098	136,875
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	-	-	(317,385)
Total other financing sources (uses)	-	-	(317,385)
Net change in cash balances	57,782	24,098	(180,510)
Cash balances beginning of year	74,587	2,817	182,871
Cash balances end of year	\$ 132,369	26,915	2,361
Cash Basis Fund Balances			
Restricted for:			
Streets	\$ -	26,915	-
Capital improvement	-	-	2,361
Assigned for equipment replacement	25,023	-	-
Unassigned	107,346	-	-
Total cash basis fund balances	\$ 132,369	26,915	2,361

See notes to financial statements.

Capital Projects	Debt Service	Total
-	-	212,534
-	-	137,843
-	-	10,834
-	-	9,347
-	-	130,263
-	-	3,544
-	-	504,365
-	-	74,042
-	-	93,688
-	-	34,544
-	-	1,307
-	-	82,029
-	135,570	135,570
150,000	-	150,000
150,000	135,570	571,180
(150,000)	(135,570)	(66,815)
181,815	135,570	317,385
-	-	(317,385)
181,815	135,570	-
31,815	-	(66,815)
(34,329)	-	225,946
(2,514)	-	159,131
-	-	26,915
-	-	2,361
-	-	25,023
(2,514)	-	104,832
(2,514)	-	159,131

City of Elk Run Heights

City of Elk Run Heights

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

As of and for the year ended June 30, 2012

	Enterprise			
	Water	Sewer	Solid Waste	Total
Operating receipts:				
Charges for service	\$ 89,408	162,449	51,846	303,703
Operating disbursements:				
Business type activities	95,179	164,559	53,529	313,267
Deficiency of operating receipts under operating disbursements	(5,771)	(2,110)	(1,683)	(9,564)
Non-operating receipts:				
Interest on investments	4,007	1,904	80	5,991
Intergovernmental	-	-	4,468	4,468
Total non-operating receipts	4,007	1,904	4,548	10,459
Net change in cash balances	(1,764)	(206)	2,865	895
Cash balances beginning of year	304,408	248,123	14,647	567,178
Cash balances end of year	\$ 302,644	247,917	17,512	568,073
Cash Basis Fund Balances				
Restricted for customer deposits	\$ 11,953	12,821	5,765	30,539
Unrestricted	290,691	235,096	11,747	537,534
Total cash basis fund balances	\$ 302,644	247,917	17,512	568,073

See notes to financial statements.

City of Elk Run Heights

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Elk Run Heights is a political subdivision of the State of Iowa located in Black Hawk County. It was first incorporated in 1951 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and solid waste disposal utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Elk Run Heights has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Black Hawk County Assessor's Conference Board, Black Hawk County Emergency Management Commission and Black Hawk County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for receipts from the tax authorized by referendum and used for capital improvements and/or capital improvement debt reduction.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities, with the exception of those financed through Enterprise Funds.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

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

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

The Enterprise, Solid Waste Fund accounts for the operation and maintenance of the City's garbage and yard waste collection programs.

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the capital projects function prior to a budget amendment.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of the Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2012 was \$11,469, equal to the required contribution for the year.

(4) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for full time employees, retirees and their spouses. There are 2 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully insured plan with Wellmark Blue Cross and Blue Shield of Iowa. Retirees under age 65 would pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$1,478 and \$1,909 for age rated family coverage. For the year ended June 30, 2012, the City contributed \$37,196 and plan members eligible for benefits contributed \$1,000 to the plan.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 8,000
Compensatory time	3,000
Total	<u>\$ 11,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
	Special Revenue:	
Capital Projects	Local Option Sales Tax	\$ 181,815
Debt Service	Local Option Sales Tax	135,570
Total		<u>\$ 317,385</u>

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

(7) Risk Management

The City is a member of 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 663 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 150% 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 insufficient, 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 City's contributions to the Pool for the year ended June 30, 2012 were \$9,941.

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 an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

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 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, 2012, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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 casualty 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 casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

(8) Deficit Balance

The Capital Projects Fund had a deficit balance of \$2,514 at June 30, 2012. The deficit balance was a result of project costs exceeding available resources. The deficit will be eliminated upon the transfer of resources from other funds.

(9) Construction Commitment

On June 12, 2012, the City entered into a contract totaling \$90,090 for an asphalt overlay project. As of June 30, 2012, no costs have been incurred. The contract will be paid as work on the project progresses.

City of Elk Run Heights

Other Information

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

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 212,534	-	212,534
Other city tax	137,843	-	137,843
Licenses and permits	10,834	-	10,834
Use of money and property	9,347	5,991	15,338
Intergovernmental	130,263	4,468	134,731
Charges for service	-	303,703	303,703
Miscellaneous	3,544	-	3,544
Total receipts	504,365	314,162	818,527
Disbursements:			
Public safety	74,042	-	74,042
Public works	93,688	-	93,688
Culture and recreation	34,544	-	34,544
Community and economic development	1,307	-	1,307
General government	82,029	-	82,029
Debt service	135,570	-	135,570
Capital projects	150,000	-	150,000
Business type activities	-	313,267	313,267
Total disbursements	571,180	313,267	884,447
Excess (deficiency) of receipts over (under) disbursements	(66,815)	895	(65,920)
Balances beginning of year	225,946	567,178	793,124
Balances end of year	\$ 159,131	568,073	727,204

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
212,070	212,070	464
126,032	126,032	11,811
5,090	5,090	5,744
8,170	8,170	7,168
133,432	133,432	1,299
286,583	286,583	17,120
-	-	3,544
<u>771,377</u>	<u>771,377</u>	<u>47,150</u>
76,393	76,393	2,351
107,080	107,080	13,392
38,600	38,600	4,056
2,104	2,104	797
108,106	108,106	26,077
135,570	135,570	-
-	150,000	-
324,370	324,370	11,103
<u>792,223</u>	<u>942,223</u>	<u>57,776</u>
(20,846)	(170,846)	104,926
<u>767,353</u>	<u>767,353</u>	<u>25,771</u>
<u>746,507</u>	<u>596,507</u>	<u>130,697</u>

City of Elk Run Heights

Notes to Other Information – Budgetary Reporting

June 30, 2012

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$150,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the capital projects function prior to the budget amendment.

Supplementary Information

City of Elk Run Heights
Schedule of Indebtedness

Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes: Street improvements	Jul 1, 2006	3.7-3.90%	\$ 720,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
130,000	-	130,000	-	5,070

City of Elk Run Heights



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Elk Run Heights, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 20, 2012. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Elk Run Heights is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Elk Run Heights' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Elk Run Heights' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Elk Run Heights' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Elk Run Heights' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (C) and (D) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Elk Run Heights' 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 or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 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.

The City of Elk Run Heights' responses to the 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 Elk Run Heights' 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 Elk Run Heights and other parties to whom the City of Elk Run Heights may report and 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 Elk Run Heights 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 20, 2012

City of Elk Run Heights

City of Elk Run Heights

Schedule of Findings

Year ended June 30, 2012

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One of two individuals has control over each of the following areas:

- (1) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
- (2) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (3) Receipts – collecting, depositing, journalizing and posting.
- (4) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (5) Payroll – preparing and distributing.
- (6) Computer system – performing all general accounting functions and controlling all data input and output.

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

Response – The City will institute a standardized internal audit committee comprised of no less than two (2) council members to perform random audits using a standardized audit checklist for internal control and to monitor all cash management and cash handling practices by City employees.

Conclusion – Response accepted.

(B) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquent accounts.

Response – The City will use the new audit committee to perform an audit/reconciliation each quarter to insure all utility billings are reconciled correctly each quarter.

Conclusion – Response accepted.

City of Elk Run Heights

Schedule of Findings

Year ended June 30, 2012

- (C) Computer Systems – The City does not have a written policy requiring separate accounts for all users of the financial accounting software.

Recommendation – The City should develop written policies addressing using separate accounts for all users of the financial accounting software.

Response – The City established a new written policy for City computer/IT use and was approved by the City Council at the October regular council meeting. The policy was reviewed by the City attorney for approval.

Conclusion - Response accepted.

- (D) Chart of Accounts - The City has not fully implemented the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – To provide better information and control, the City should follow the Uniform Chart of Accounts for Iowa City Governments.

Response – We will be purchasing new software next fiscal year and it will be set up to coincide with the Uniform Chart of Accounts and budget.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Elk Run Heights

Schedule of Findings

Year ended June 30, 2012

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amount budgeted in the capital projects function before the budget was amended on February 14, 2012.

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

Response – The City will note this as part of the City Council review of the audit and the Mayor will work with the City Clerk and City Council to ensure the budget is amended prior to any budget being exceeded.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (8) Financial Condition – The Capital Projects Fund had a deficit balance of \$2,514 at June 30, 2012.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial position.

Response – For the upcoming fiscal year, no capital projects are scheduled to date, so the Mayor will work with the City Clerk and City Council to increase this ledger account using the appropriate methods.

Conclusion – Response accepted.

City of Elk Run Heights

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Kelly L. Hilton, Senior Auditor
Jesse J. Probasco, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State