



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

March 26, 2007

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

The City's receipts totaled \$1,358,317 for the year ended June 30, 2006. The receipts included \$235,855 from charges for service, \$112,719 from operating grants, contributions and restricted interest, \$671,160 from capital grants, contributions and restricted interest, \$177,023 in property tax, \$119,790 from local option sales tax, \$34,849 from unrestricted interest on investments and \$6,921 from other general receipts.

Disbursements for the year totaled \$1,338,312, and included \$927,063 for public works, \$86,142 for general government and \$66,808 for public safety. Also, disbursements for business type activities totaled \$228,687.

A copy of the 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/reports.htm>.

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CITY OF ELK RUN HEIGHTS

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

JUNE 30, 2006

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City of Elk Run Heights

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
William R. Henninger	Mayor	Jan 2006
Mike Russell	Mayor Pro tem	Jan 2006
Dennis Bass	Council Member	Jan 2006
Robert Hertges	Council Member	Jan 2006
Ron Ratchford	Council Member	Jan 2006
Rick Heth	Council Member	Jan 2006
(After January 2006)		
William R. Henninger	Mayor	Jan 2008
Dennis Bass	Mayor Pro tem	Jan 2008
Robert Hertges	Council Member	Jan 2008
Ron Ratchford	Council Member	Jan 2008
Rick Heth	Council Member	Jan 2008
Scott Wroe	Council Member	Jan 2008
Kristi Lundy	Clerk	Indefinite
Amy Henninger	Deputy Clerk	Indefinite
Carter J. Stevens	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, each major fund and the aggregate remaining fund information of the City of Elk Run Heights, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of 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, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, 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, each major fund and the aggregate remaining fund information of the City of Elk Run Heights as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 9, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated February 8, 2007 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 internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elk Run Heights' basic financial statements. Other supplementary information included in Schedules 1 and 2, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 8, 2007

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

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since 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.

2006 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased by approximately \$1,300.
- The cash basis net assets of the City's business type activities increased by approximately \$19,000, due primarily to an overall decrease in disbursements.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the City's long-term debt. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

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 that 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, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water and sewer systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

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

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

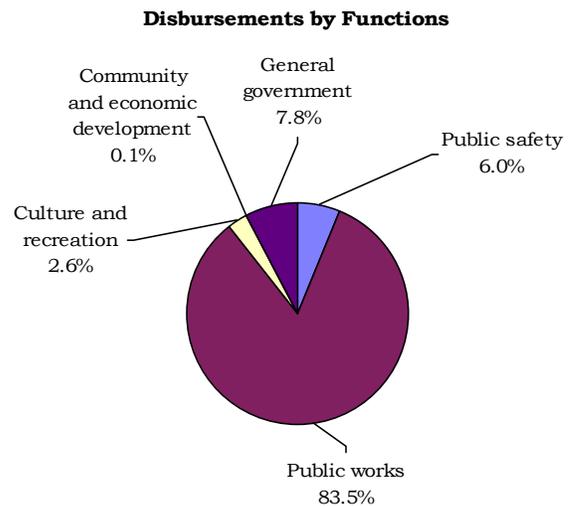
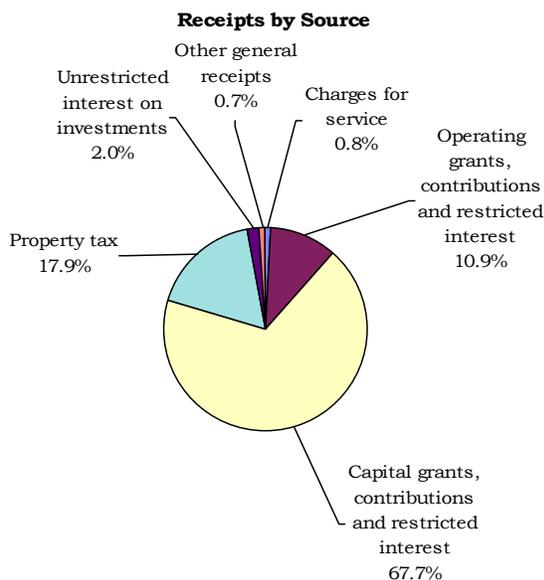
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and solid waste operations. The Water and Sewer Funds are considered to be major funds 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 is \$622,287 at June 30, 2006. 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, 2006
Receipts:	
Program receipts:	
Charges for service	\$ 7,575
Operating grants, contributions and restricted interest	108,511
Capital grants, contributions and restricted interest	671,160
General receipts:	
Property tax	177,023
Local option sales tax	119,790
Unrestricted interest on investments	19,908
Other general receipts	6,921
Total receipts	<u>1,110,888</u>
Disbursements:	
Public safety	66,808
Public works	927,063
Culture and recreation	28,442
Community and economic development	1,170
General government	86,142
Total disbursements	<u>1,109,625</u>
Increase in cash basis net assets	1,263
Cash basis net assets beginning of year	<u>621,024</u>
Cash basis net assets end of year	<u>\$ 622,287</u>



The cash basis net assets increased by approximately \$1,263.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 77,519
Sewer	112,918
Solid waste	37,843
Operating grants, contributions and restricted interest	4,208
General receipts:	
Unrestricted interest on investments	14,941
Total receipts	<u>247,429</u>
Disbursement:	
Water	63,795
Sewer	123,265
Solid waste	41,627
Total disbursements	<u>228,687</u>
Increase in cash basis net assets	18,742
Cash basis net assets beginning of year	<u>500,728</u>
Cash basis net assets end of year	<u><u>\$ 519,470</u></u>

Total business type activities cash basis net assets increased over fiscal year 2005, increasing from \$500,728 to \$519,470.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Elk Run Heights completed the year, its governmental funds reported a combined fund balance of \$622,287, an increase of approximately \$1,300 over the June 30, 2005 balance of \$621,024. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased by \$58,506 from the prior year, to a year-end balance of \$169,662, due to the City's share of project costs for bridge replacement and street work during fiscal year 2006.
- The Road Use Tax Fund cash balance increased by \$16,307 to \$119,620 during the fiscal year since the City's project costs for street improvements were less than expected.
- The Local Option Sales Tax Fund was established to account for special sales taxes collected. At the end of the fiscal year, the cash balance was \$328,957, an increase of \$43,356 over the previous year due, in part, to increased collections. The City is planning to use the balance to service the general obligation capital loan notes dated July 1, 2006.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$20,834 to \$276,421, due primarily to a decrease in disbursements.
- The Sewer Fund cash balance decreased by \$2,551 to \$220,333, due primarily to increased spending for sewer facilities.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 9, 2006 and resulted in an increase of \$278,000 in operating disbursements related to the Lafayette Road bridge replacement project. The City received federal grants and had sufficient cash balances to absorb these additional costs.

The City's actual receipts were \$25,812 less than budgeted receipts. This was primarily due to receiving less federal funding for the bridge replacement project than originally anticipated.

The City's actual disbursements were \$37,245 less than budgeted disbursements. This was primarily due to incurring less costs for lift station improvements and for legal and professional fees than originally anticipated. Also, some budgeted street improvements were not completed in the fiscal year.

DEBT ADMINISTRATION

At June 30, 2006, the City had a balance of \$10,000 on a land and building purchase contract compared to \$20,000 at the end of the previous year. On July 1, 2006, the City issued \$720,000 in general obligation capital loan notes to be used for street projects.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Elk Run Heights's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates and fees charged for various City activities. The City's fiscal year 2007 taxable valuation increased approximately 10%, or \$2,597,676, from the fiscal year 2006 level.

The fiscal year 2007 budget includes total receipts of \$642,274 and disbursements of \$634,886.

The FY2007 levy is \$6.0040 per \$1,000 of taxable valuation, which was lowered from \$6.29 for FY2006.

These parameters were taken into account when adopting the budget for FY2007.

The Council was able to lower the tax asking due to the \$2,600,000 increase in property values.

Disbursements decreased from FY06 due to the bridge reconstruction project being completed. This is also reflected in less project reimbursement receipts.

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, 504 Lafayette Road, Elk Run Heights, Iowa 50707.

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, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 66,808	3,331	-	-
Public works	927,063	-	104,511	671,160
Culture and recreation	28,442	3,304	-	-
Community and economic development	1,170	-	-	-
General government	86,142	940	4,000	-
Total governmental activities	1,109,625	7,575	108,511	671,160
Business type activities:				
Water	63,795	77,519	-	-
Sewer	123,265	112,918	-	-
Solid Waste	41,627	37,843	4,208	-
Total business type activities	228,687	228,280	4,208	-
Total	\$ 1,338,312	235,855	112,719	671,160

General Receipts:

Property and other city tax levied for general purposes
 Local option sales tax
 Unrestricted interest on investments
 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

Local option sales tax

Other purposes

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
(63,477)	-	(63,477)
(151,392)	-	(151,392)
(25,138)	-	(25,138)
(1,170)	-	(1,170)
(81,202)	-	(81,202)
(322,379) [▼]	-	(322,379)
-	13,724	13,724
-	(10,347)	(10,347)
-	424	424
-	3,801	3,801
(322,379)	3,801	(318,578)
177,023	-	177,023
119,790	-	119,790
19,908	14,941	34,849
5,213	-	5,213
1,708	-	1,708
323,642	14,941	338,583
1,263	18,742	20,005
621,024	500,728	1,121,752
\$ 622,287	519,470	1,141,757
\$ 119,620	-	119,620
328,957	-	328,957
4,048	-	4,048
169,662	519,470	689,132
\$ 622,287	519,470	1,141,757

Exhibit B

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, 2006

	Special Revenue				Total
	General	Road Use Tax	Local Option Sales Tax	Nonmajor Permanent Kid City	
Receipts:					
Property tax	\$ 177,023	-	-	-	177,023
Other city tax	5,213	-	119,790	-	125,003
Licenses and permits	4,141	-	-	-	4,141
Use of money and property	19,700	-	3,406	106	23,212
Intergovernmental	671,160	88,079	-	-	759,239
Miscellaneous	22,270	-	-	-	22,270
Total receipts	899,507	88,079	123,196	106	1,110,888
Disbursements:					
Operating:					
Public safety	66,808	-	-	-	66,808
Public works	855,291	71,772	-	-	927,063
Culture and recreation	28,442	-	-	-	28,442
Community and economic development	1,170	-	-	-	1,170
General government	86,142	-	-	-	86,142
Total disbursements	1,037,853	71,772	-	-	1,109,625
Excess (deficiency) of receipts over (under) disbursements	(138,346)	16,307	123,196	106	1,263
Other financing sources (uses):					
Operating transfers in	79,840	-	-	-	79,840
Operating transfers out	-	-	(79,840)	-	(79,840)
Total other financing sources (uses)	79,840	-	(79,840)	-	-
Net change in cash balances	(58,506)	16,307	43,356	106	1,263
Cash balances beginning of year	228,168	103,313	285,601	3,942	621,024
Cash balances end of year	\$ 169,662	119,620	328,957	4,048	622,287
Cash Basis Fund Balances					
Unreserved:					
General fund	\$ 169,662	-	-	-	169,662
Special revenue funds	-	119,620	328,957	-	448,577
Permanent fund	-	-	-	4,048	4,048
Total cash basis fund balances	\$ 169,662	119,620	328,957	4,048	622,287

See notes to financial statements.

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, 2006

	Enterprise			
	Water	Sewer	Nonmajor	Total
			Solid Waste	
Operating receipts:				
Charges for service	\$ 76,429	111,598	37,249	225,276
Miscellaneous	1,090	1,320	594	3,004
Total operating receipts	77,519	112,918	37,843	228,280
Operating disbursements:				
Business type activities	63,795	123,265	41,627	228,687
Excess (deficiency) of operating receipts over (under) operating disbursements	13,724	(10,347)	(3,784)	(407)
Non-operating receipts:				
Interest on investments	7,110	7,796	35	14,941
Recycling grant	-	-	4,208	4,208
Total non-operating receipts	7,110	7,796	4,243	19,149
Net change in cash balances	20,834	(2,551)	459	18,742
Cash balances beginning of year	255,587	222,884	22,257	500,728
Cash balances end of year	\$ 276,421	220,333	22,716	519,470
Cash Basis Fund Balances				
Unreserved	\$ 276,421	220,333	22,716	519,470

See notes to financial statements.

City of Elk Run Heights

Notes to Financial Statements

June 30, 2006

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the local option sales tax and its uses.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

The City of Elk Run Heights 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.

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

D. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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) Land/Building Purchase Contract

On May 1, 2003, the City entered into a land/building purchase contract for \$52,000. The contract required a down payment of \$12,000 on May 1, 2003 and four annual payments of \$10,000 beginning December 1, 2003 and ending December 1, 2006. The City paid \$10,000 during the ended June 30, 2006. The unpaid balance at June 30, 2006 was \$10,000.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% 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 contributions to IPERS for the year ended June 30, 2006 was \$6,205, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory hours 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 payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 1,600
Compensatory time	<u>2,900</u>
Total	<u>\$ 4,500</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

(6) Risk Management

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

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

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund 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, 2006 were \$9,727.

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 and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each 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 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, 2006, 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 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 contributions which the withdrawing member would have made for the one-year period following withdrawal.

(7) Construction Commitments

The City has entered into contracts for bridge replacement and construction of a lift station at a total cost of \$767,966. At June 30, 2006, \$704,155 has been paid on these contracts. Additional payments will be made as work on the projects progresses. At June 30, 2006, the unpaid contract amounts totaled \$63,811.

(8) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Local Option Sales tax	\$79,840

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

(9) Accounting Change

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

Implementation of these standards had no effect on the beginning balances of the City.

(10) Subsequent Event

On July 1 2006, the City issued \$720,000 of general obligation capital loan notes for street improvements.

On December 12, 2006, the City approved a paving project totaling \$75,160.

City of Elk Run Heights

Required Supplementary 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

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 177,023	-
Other city tax	125,003	-
Licenses and permits	4,141	-
Use of money and property	23,212	14,941
Intergovernmental	759,239	4,208
Charges for service	16,432	225,276
Miscellaneous	5,838	3,004
Total receipts	<u>1,110,888</u>	<u>247,429</u>
Disbursements:		
Public safety	66,808	-
Public works	927,063	-
Culture and recreation	28,442	-
Community and economic development	1,170	-
General government	86,142	-
Debt service	-	-
Business type activities	-	228,687
Total disbursements	<u>1,109,625</u>	<u>228,687</u>
Excess (deficiency) of receipts over (under) disbursements	1,263	18,742
Balances beginning of year	621,024	500,728
Balances end of year	<u>\$ 622,287</u>	<u>519,470</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
177,023	174,361	174,361	2,662
125,003	92,248	92,248	32,755
4,141	8,250	8,250	(4,109)
38,153	25,735	25,735	12,418
763,447	639,660	889,660	(126,213)
241,708	193,425	193,425	48,283
8,842	450	450	8,392
1,358,317	1,134,129	1,384,129	(25,812)
66,808	73,222	73,222	6,414
927,063	640,319	940,319	13,256
28,442	30,722	30,722	2,280
1,170	3,104	3,104	1,934
86,142	99,502	99,502	13,360
-	22,000	-	-
228,687	228,688	228,688	1
1,338,312	1,097,557	1,375,557	37,245
20,005	36,572	8,572	11,433
1,121,752	1,075,563	1,075,563	46,189
1,141,757	1,112,135	1,084,135	57,622

City of Elk Run Heights

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board 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 ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$278,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the public works function prior to the budget amendment in May 2006.

Other Supplementary Information

City of Elk Run Heights
Schedule of Indebtedness
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Land/building purchase contract	May 1, 2003	0%	\$52,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 20,000	-	10,000	10,000	-

Schedule 2

City of Elk Run Heights
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction			
	20.205	BRM-2312(601) - 8N-07	<u>\$ 630,471</u>

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

See accompanying independent auditor's report.



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, each major fund and the aggregate remaining fund information of the City of Elk Run Heights, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 8, 2007. 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, 2005. 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

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Elk Run Heights'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 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 that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

February 8, 2007

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

City of Elk Run Heights



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Elk Run Heights, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2006. The City of Elk Run Heights' major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Elk Run Heights' management. Our responsibility is to express an opinion on the City of Elk Run Heights's compliance based on our audit.

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

In our opinion, the City of Elk Run Heights complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Elk Run Heights is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal program. In planning and performing our audit, we considered the City of Elk Run Heights's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 8, 2007

City of Elk Run Heights
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) Qualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 20.205 – Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Elk Run Heights did not qualify as a low-risk auditee.

City of Elk Run Heights
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties – One important aspect of internal 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 receipts and disbursement transactions and handling and recording cash.
- (2) Investments – detailed record keeping, custody of investments and recording earnings.
- (3) Receipts – collecting, depositing, journalizing and posting.
- (4) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (5) Disbursements – purchasing, check signing, recording and reconciling.
- (6) Payroll – preparing and distributing.
- (7) Information system (computer usage) – 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 operating procedures to obtain the maximum internal control possible under the circumstances.

Response – The Council will review receipts and disbursements each month. The clerk discusses investments with the Mayor. There will be more involvement of City officials in the day-to-day operations.

Conclusion – Response accepted.

II-B-06 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquencies were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies each quarter and delinquent lists should be prepared for each quarter. The City Council and/or finance committee should review the reconciliations and monitor delinquencies.

Responses – We will prepare reconciliations and reconciliations will be reviewed and delinquencies monitored.

Conclusion – Response accepted.

City of Elk Run Heights

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

II-C-06 Information Systems – During our review of internal control, the existing control activities in the City’s computer based financial systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City's financial computer based systems were noted:

The City does not have written policies over the financial computer system for:

- password privacy and confidentiality.
- requiring password changes because software does not require the user to change log-ins/passwords periodically.
- The storage of backup tapes/disks off site.
- Alternative power source(s).
- Usage of the internet.
- A disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer based systems.

Response – We will prepare written policies. We do require passwords, restrict internet usage and have a disaster recovery plan.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Elk Run Heights
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over the major program were noted.

City of Elk Run Heights

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-06 Certified Budget – Disbursements exceeded the amount budgeted in the public works function prior to the budget amendment in May 2006. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – We were waiting on final figures for the bridge replacement project. We will prepare the amendment before disbursements are made as required by the Code of Iowa.

Conclusion – Response accepted.

IV-B-06 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.

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

IV-D-06 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

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

The City did not publish actual gross salaries/wages as required for all employees in accordance with Chapter 372.13 of the Code of Iowa and an Attorney General’s opinion dated April 12, 1978.

Recommendation – The City should publish actual gross salaries/wages as required.

Response – The resolution was approved by the Council, but by oversight, the resolution was not sent over to be published. We will be more careful in the future to ensure this gets published.

Conclusion – Response accepted.

City of Elk Run Heights

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

IV-G-06 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.

IV-H-06 Capital Projects – The City accounted for the Lafayette Road bridge replacement and Michigan, Toneff and Gilbert Drive asphalt projects in the General Fund.

Recommendation – The City should establish separate capital project funds for project activity to account for all project costs and financing sources.

Response – The City will utilize capital projects funds in the future.

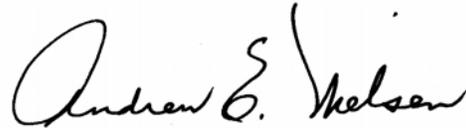
Conclusion – Response accepted.

City of Elk Run Heights

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Shawn R. Elsbury, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial 'A' and 'N'.

Andrew E. Nielsen, CPA
Deputy Auditor of State