



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE June 28, 2007

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on the City of Elk Horn, 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 \$1,512,776 for the year ended June 30, 2006. The receipts included \$125,110 in property tax, \$40,130 from tax increment financing, \$242,993 from charges for service, \$254,208 from operating grants, contributions and restricted interest, \$167,442 from capital grants, contributions and restricted interest, \$35,519 from local option sales tax, \$329,609 from grants and contributions not restricted to specific purpose, \$8,332 from unrestricted interest on investments, \$303,819 from loan proceeds and \$5,614 from other general receipts.

Disbursements for the year totaled \$1,219,339, and included \$218,586 for public safety, \$173,379 for general government and \$86,846 for public works activities. Also, disbursements for business type activities totaled \$625,772.

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/reports.htm>.

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CITY OF ELK HORN

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 Horn

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------------|----------------|---------------------|
| (Before January 2006) | | |
| Howard Sorensen | Mayor | Jan 2008 |
| Paul Hansen | Council Member | Jan 2006 |
| Jimmy McCarthy | Council Member | Jan 2006 |
| Tim Fredericksen | Council Member | Jan 2008 |
| H. John Jones | Council Member | Jan 2008 |
| Gene Mardesen | Council Member | Jan 2008 |
| Jo Christofferson | Clerk | Jan 2006 |
| Mike Childs | Attorney | Indefinite |
| (After January 2006) | | |
| Howard Sorensen | Mayor | Jan 2008 |
| Tim Fredericksen | Council Member | Jan 2008 |
| H. John Jones | Council Member | Jan 2008 |
| Gene Mardesen | Council Member | Jan 2008 |
| Paul Hansen | Council Member | Jan 2010 |
| Jimmy McCarthy | Council Member | Jan 2010 |
| Jo Christofferson | Clerk | Jan 2007 |
| Mike Childs | Attorney | Indefinite |

City of Elk Horn



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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 Horn, 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 Horn's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, 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 Horn 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 10, 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 March 27, 2007 on our consideration of the City of Elk Horn's 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 28 through 30 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 Horn's basic financial statements. Other supplementary information included in Schedules 1 through 4, 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

March 27, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Elk Horn 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. Prior year financial statements did not include a Statement of Activities and Net Assets – Cash Basis, therefore comparable data is not available. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities were approximately \$984,000. Of this amount, property tax receipts were approximately \$165,000 and grants and contributions not restricted to a specific purpose were approximately \$330,000.
- Disbursements of the City's governmental activities were approximately \$594,000 in fiscal 2006. Public safety, general government and public works disbursements were approximately \$219,000, \$173,000 and \$87,000, respectively.
- The City's total cash basis net assets were approximately \$724,000 at June 30, 2006. Of this amount, the assets of the governmental activities were approximately \$806,000 and the assets of the business type activities were approximately (\$82,000).

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness. 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 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, general government and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and the solid waste system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as the Local Option Sales and Services 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. Only the water fund is considered to be a major fund 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

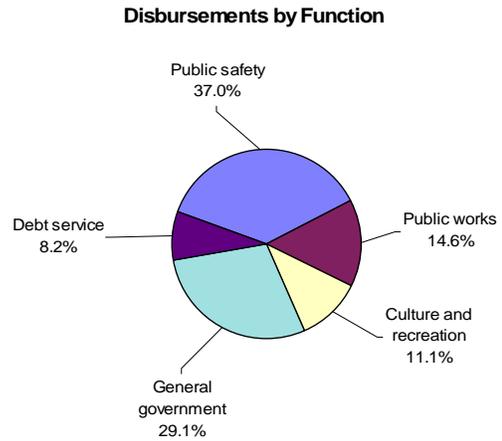
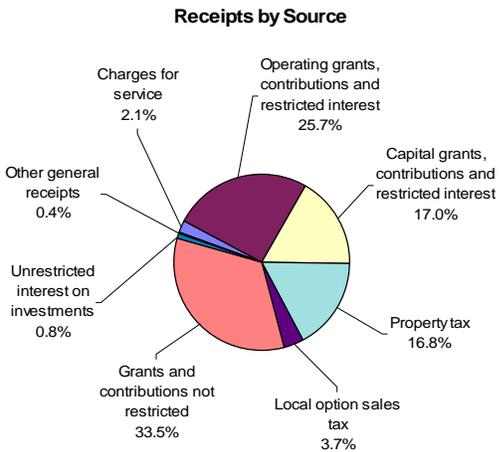
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities was approximately \$806,000. The analysis that follows focuses on the receipts and disbursements of the governmental activities.

| Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands) | |
|---|--------------------------------|
| | Year ended June 30, 2006 |
| Receipts: | |
| Program receipts: | |
| Charges for service | \$ 21 |
| Operating grants, contributions and restricted interest | 253 |
| Capital grants, contributions and restricted interest | 167 |
| General receipts: | |
| Property tax | 165 |
| Local option sales tax | 36 |
| Grants and contributions not restricted to specific purposes | 330 |
| Unrestricted interest on investments | 8 |
| Other general receipts | 4 |
| Total receipts | <u>984</u> |
| Disbursements: | |
| Public safety | 219 |
| Public works | 87 |
| Culture and recreation | 66 |
| General government | 173 |
| Debt service | 49 |
| Total disbursements | <u>594</u> |
| Increase in cash basis net assets | 390 |
| Cash basis net assets beginning of year, as restated | <u>416</u> |
| Cash basis net assets end of year | <u>\$ 806</u> |

The City's governmental activities program receipts consisted of approximately \$21,000 for charges for services, approximately \$253,000 for operating grants, contributions and restricted interest and approximately \$167,000 for capital grants, contributions and restricted interest.

The City's general receipts were comprised of property tax of approximately \$165,000, local option sales tax of approximately \$36,000, contributions not restricted to a specific purpose of approximately \$330,000, unrestricted interest on investments of approximately \$8,000 and miscellaneous receipts of approximately \$4,000.

The cost of all governmental activities this year was approximately \$594,000. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was only about \$152,000 because some of the cost was paid by those directly benefited from the programs (approximately \$21,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (approximately \$421,000) partly due to receiving grant proceeds to purchase public safety equipment and a Vision Iowa grant. The City paid for the remaining "public benefit" portion of governmental activities with general receipts.



Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

| | Year ended June 30, 2006 |
|---|--------------------------------|
| Receipts: | |
| Program receipts: | |
| Charges for service: | |
| Water | \$ 139 |
| Nonmajor | 83 |
| Operating grants, contributions and restricted interest | 1 |
| General receipts: | |
| Unrestricted interest on investments | 1 |
| Water revolving loan proceeds | 304 |
| Other general receipts | 1 |
| Total receipts | <u>529</u> |
| Disbursements: | |
| Water | 531 |
| Nonmajor | 95 |
| Total disbursements | <u>626</u> |
| Decrease in cash basis net assets | (97) |
| Cash basis net assets beginning of year | <u>15</u> |
| Cash basis net assets end of year | <u>\$ (82)</u> |

Total business type activities receipts for the fiscal year were approximately \$225,000 in addition to water revolving loan proceeds of approximately \$304,000. The cash balance was approximately a negative \$82,000 due to costs incurred on the water improvement project. Total disbursements for the fiscal year totaled approximately \$626,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Elk Horn completed the year, its governmental funds reported a combined fund balance of approximately \$806,000, an increase of more than \$390,000 above last year's total, as restated, of approximately \$416,000. 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 \$372,309 over the prior year to \$652,388. Approximately \$330,000 of this increase was due to unrestricted contributions from a local donor.
- The Local Option Sales and Services Tax Fund cash balance decreased \$1,053 to \$91,948 during the fiscal year. This decrease was very minimal.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$86,118 to a negative balance of \$90,154, due primarily to the water construction project began in the current year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on June 5, 2006 and resulted in an increase in budgeted disbursements for the purchase of fire department equipment, additional road work, improvements to the waterworks system and to retire the general obligation note early.

The City's receipts were \$686,885 more than budgeted. This was primarily due to the City receiving unanticipated contributions from an outside donor and grants from the state and federal government.

With the amendment, total disbursements were \$228,373 less than the amended budget. However, actual disbursements for the public safety function were \$41,118 more than the amended budget. This was primarily due to the purchase of fire department equipment.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$810,894 in bonds outstanding, compared to approximately \$538,000 last year, as shown below.

| | Outstanding Debt at Year-End | |
|-------------------------|------------------------------|---------|
| | June 30, | |
| | 2006 | 2005 |
| General obligation note | \$ - | 40,000 |
| Revenue bonds | 810,894 | 537,639 |
| Total | \$ 810,894 | 577,639 |

Debt increased as a result of issuing water revenue bonds for a water construction project. In addition, the City paid off the general obligation note early.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. Since the City has no outstanding general obligation debt, the City is properly below its constitutional debt limit of approximately \$542,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Elk Horn'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. One of those factors is the economy. The State's unemployment rate is 3.4% and the national rate is 3.9%.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2% for fiscal year 2005 compared with the national rate of 3.4%. Inflation has been modest here due in part to the slowing of the residential housing market and increases in energy prices in 2006.

These indicators were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are \$1.3 million, a decrease of less than 1% from the final 2006 budget. Budgeted disbursements are expected to decrease approximately \$286,000. The decrease is mainly due to the winding down of the water construction project. The City has added no major new programs or initiatives to the 2007 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$213,000 by the close of 2007.

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 Jo Christofferson, City Clerk, P. O. Box 216, Elk Horn, Iowa 51531.

Basic Financial Statements

City of Elk Horn

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 | \$ 218,586 | 8,372 | 68,739 | 167,442 |
| Public works | 86,846 | - | 54,338 | - |
| Culture and recreation | 65,699 | 10,940 | 10,222 | - |
| General government | 173,379 | 1,478 | 120,000 | - |
| Debt service | 49,057 | - | - | - |
| Total governmental activities | 593,567 | 20,790 | 253,299 | 167,442 |
| Business type activities: | | | | |
| Water | 530,516 | 139,186 | 659 | - |
| Sewer | 46,360 | 36,339 | 250 | - |
| Solid waste | 48,896 | 46,678 | - | - |
| Total business type activities | 625,772 | 222,203 | 909 | - |
| Total | \$ 1,219,339 | 242,993 | 254,208 | 167,442 |

General Receipts:

Property and other city tax levied for:
 General purposes
 Tax increment financing
 Debt service
 Local option sales tax
 Grants and contributions not restricted to specific purpose
 Unrestricted interest on investments
 Water revolving loan proceeds
 Miscellaneous

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year, as restated

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Streets
 Urban renewal purposes
 Local option sales and services
 Debt service
 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 |
|----------------------------|-----------------------------|-----------|
| 25,967 | - | 25,967 |
| (32,508) | - | (32,508) |
| (44,537) | - | (44,537) |
| (51,901) | - | (51,901) |
| (49,057) | - | (49,057) |
| (152,036) [▼] | - | (152,036) |
| - | (390,671) | (390,671) |
| - | (9,771) | (9,771) |
| - | (2,218) | (2,218) |
| - | (402,660) | (402,660) |
| (152,036) | (402,660) | (554,696) |
| 112,295 | - | 112,295 |
| 40,130 | - | 40,130 |
| 12,815 | - | 12,815 |
| 35,519 | - | 35,519 |
| 329,609 | - | 329,609 |
| 7,695 | 637 | 8,332 |
| - | 303,819 | 303,819 |
| 4,353 | 1,261 | 5,614 |
| 542,416 | 305,717 | 848,133 |
| 390,380 | (96,943) | 293,437 |
| 415,783 | 15,337 | 431,120 |
| \$ 806,163 | (81,606) | 724,557 |
| \$ 25,315 | - | 25,315 |
| 20,771 | - | 20,771 |
| 91,948 | - | 91,948 |
| - | 5,307 | 5,307 |
| 15,741 | - | 15,741 |
| 652,388 | (86,913) | 565,475 |
| \$ 806,163 | (81,606) | 724,557 |

City of Elk Horn

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

As of and for the year ended June 30, 2006

| | <u>General</u> |
|--|-------------------|
| Receipts: | |
| Property tax | \$ 96,266 |
| Tax increment financing | - |
| Other city tax | 9,438 |
| Licenses and permits | 1,478 |
| Use of money and property | 12,106 |
| Intergovernmental | 304,817 |
| Charges for service | 19,312 |
| Miscellaneous | 391,137 |
| Total receipts | <u>834,554</u> |
| Disbursements: | |
| Operating: | |
| Public safety | 218,586 |
| Public works | 4,581 |
| Culture and recreation | 65,699 |
| General government | 173,379 |
| Debt service | - |
| Total disbursements | <u>462,245</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>372,309</u> |
| Other financing sources (uses): | |
| Operating transfers in | - |
| Operating transfers out | - |
| Total other financing sources (uses) | <u>-</u> |
| Net change in cash balances | 372,309 |
| Cash balances beginning of year, as restated | <u>280,079</u> |
| Cash balances end of year | <u>\$ 652,388</u> |
| Cash Basis Fund Balances | |
| Unreserved: | |
| General fund | \$ 652,388 |
| Special revenue funds | - |
| Capital projects fund | - |
| Total cash basis fund balances | <u>\$ 652,388</u> |

See notes to financial statements.

| Special Revenue | | |
|--------------------|----------|----------|
| Local Option | | |
| Sales and Services | | |
| Tax | Nonmajor | Total |
| - | 19,406 | 115,672 |
| - | 40,130 | 40,130 |
| 35,519 | - | 44,957 |
| - | - | 1,478 |
| - | - | 12,106 |
| - | 54,338 | 359,155 |
| - | - | 19,312 |
| - | - | 391,137 |
| 35,519 | 113,874 | 983,947 |
| - | - | 218,586 |
| - | 82,265 | 86,846 |
| - | - | 65,699 |
| - | - | 173,379 |
| 6,760 | 42,297 | 49,057 |
| 6,760 | 124,562 | 593,567 |
| 28,759 | (10,688) | 390,380 |
| - | 29,812 | 29,812 |
| (29,812) | - | (29,812) |
| (29,812) | 29,812 | - |
| (1,053) | 19,124 | 390,380 |
| 93,001 | 42,703 | 415,783 |
| 91,948 | 61,827 | 806,163 |
| - | - | 652,388 |
| 91,948 | 46,098 | 138,046 |
| - | 15,729 | 15,729 |
| 91,948 | 61,827 | 806,163 |

City of Elk Horn

City of Elk Horn

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

As of and for the year ended June 30, 2006

| | Enterprise | | |
|--|-------------|----------|-----------|
| | Water | Nonmajor | Total |
| Operating receipts: | | | |
| Charges for service | \$ 139,186 | 83,017 | 222,203 |
| Miscellaneous | 659 | 250 | 909 |
| Total operating receipts | 139,845 | 83,267 | 223,112 |
| Operating disbursements: | | | |
| Business type activities | 89,604 | 95,256 | 184,860 |
| Excess (deficiency) of operating receipts under (under) operating disbursements | 50,241 | (11,989) | 38,252 |
| Non-operating receipts (disbursements): | | | |
| Interest on investments | 618 | 19 | 637 |
| Miscellaneous | 116 | 1,145 | 1,261 |
| Water revolving loan proceeds | 303,819 | - | 303,819 |
| Capital improvements | (395,683) | - | (395,683) |
| Debt service | (45,229) | - | (45,229) |
| Total non-operating receipts (disbursements) | (136,359) | 1,164 | (135,195) |
| Deficiency of receipts under disbursements | (86,118) | (10,825) | (96,943) |
| Cash balances beginning of year | (4,036) | 19,373 | 15,337 |
| Cash balances end of year | \$ (90,154) | 8,548 | (81,606) |
| Cash Basis Fund Balances | | | |
| Reserved for debt service | \$ 5,307 | - | 5,307 |
| Unreserved | (95,461) | 8,548 | (86,913) |
| Total cash basis fund balances | \$ (90,154) | 8,548 | (81,606) |

See notes to financial statements.

City of Elk Horn

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Elk Horn is a political subdivision of the State of Iowa located in Shelby County. It was first incorporated in 1884 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 and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Elk Horn 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: Shelby County Assessor's Conference Board, Shelby County Emergency Management Commission, Shelby County Area Solid Waste Management Agency and Shelby 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. 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.

The Special Revenue, Local Option Sales and Services Tax Fund is used to account for the collection and use of the local option sales and services tax.

The City reports the following major proprietary fund:

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

C. Measurement Focus and Basis of Accounting

The City of Elk Horn 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 safety function.

(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 Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Revenue Bonds Payable

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

| Year Ending June 30, | Interest Rate | Principal | Interest | Total |
|----------------------------|------------------|------------|----------|---------|
| 2007 | 3.53% | \$ 19,000 | 12,885 | 31,885 |
| 2008 | 3.53 | 19,000 | 12,214 | 31,214 |
| 2009 | 3.53 | 20,000 | 11,543 | 31,543 |
| 2010 | 3.53 | 21,000 | 10,837 | 31,837 |
| 2011 | 3.53 | 22,000 | 10,096 | 32,096 |
| 2012 - 2016 | 3.53 | 120,000 | 38,477 | 158,477 |
| 2017 - 2021 | 3.53 | 144,000 | 15,602 | 159,602 |
| Total | | \$ 365,000 | 111,654 | 476,654 |

Water Revenue Bonds – The City issued a water revenue bond totaling \$339,800 on January 9, 1980 to defray a portion of the cost of constructing a water improvement. The bond was originally payable to the U. S. Department of Agriculture (USDA), but was subsequently sold to GMAC, and is payable in annual installments of \$20,147, including interest at 5% per annum. During the year ended June 30, 2006, the City paid \$12,564 of principal and \$7,583 of interest, leaving a balance due at June 30, 2006 of \$142,075. Because an amortization schedule has not been established for this debt issue, it is not included in debt service requirements to maturity in the schedule above.

The resolution providing for the issuance of the water revenue bond includes the following provisions:

- (a) The bond will only be redeemed from the future earnings of the enterprise activity and the bond holder holds a lien on the future earnings of the funds.
- (b) The City shall make annual payments of interest only in the years 1980 and 1981 and of \$20,147, including interest at 5% per annum, in the years 1982 through 2019, inclusive.
- (c) Sufficient monthly transfers shall be made to a water revenue bond sinking account for the purpose of making the above payments when due.
- (d) Additional monthly transfers shall be made to a water revenue bond reserve account until a specific minimum balance has been accumulated. This account is restricted for making the annual principal and interest payments whenever there is insufficient money in the water revenue bond sinking account.

The City has not established the sinking account required by the water revenue bond resolutions and the balance in the reserve account is less than the amount required.

The City issued a \$450,000 water revenue bond on December 1, 2001 to defray a portion of the cost of water improvements. The bond matures on June 1, 2021 and bears interest at 3.53% per annum, which is due and payable every June 1 and December 1. During the year ended June 30, 2006, the City paid \$18,000 of principal and \$13,520 of interest on this bond.

On April 28, 2006, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$500,000 of water revenue bonds with interest at 3.0% per annum. The bonds were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the City's water system. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2006, the City had drawn \$303,819, including a \$5,000 initiation fee, of the \$500,000 authorized. Wells Fargo Bank Iowa, N.A., has the remaining balance of \$196,181 held in trust, which the City will request as the project progresses. A formal repayment schedule has not yet been adopted.

The resolutions providing for the issuance of these water revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holder holds a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to water revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.

- (c) All funds remaining in the water account after the payment of all maintenance and operating expenses and required transfers shall be placed in a water revenue surplus account. This account is restricted for the purpose of paying for any improvements, extensions or repairs to the system or for bond and interest payments which the other accounts might be unable to make.

The City has not established the sinking or surplus accounts required by the water revenue bond resolutions.

(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 contribution to IPERS for the year ended June 30, 2006 was \$4,467 equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave 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 sick leave hours payable to the full-time City employee at June 30, 2006, primarily relating to the General Fund, is as follows:

| Type of Benefit | Amount |
|-----------------|-----------------|
| Vacation | \$ 3,900 |
| Sick leave | <u>900</u> |
| Total | <u>\$ 4,800</u> |

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

(6) Interfund Transfers

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

| Transfer to | Transfer from | Amount |
|--------------|--|------------------|
| Debt Service | Special Revenue: Local Option Sales and Services Tax | <u>\$ 29,812</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 exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Construction Commitments

Construction commitments at June 30, 2006 totaled approximately \$450,000 which will be paid as work on the water improvements progress. This project will be funded through debt issues, grants and local funds.

(9) Deficit Balances

The Enterprise, Water and Sewer Funds had deficit balances of \$90,154 and \$8,387, respectively, at June 30, 2006.

(10) Accounting Change and Restatement

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.

The beginning cash balance of the General Fund was restated to include the financial activity of the separately maintained accounts for fire, rescue and library not previously reported:

| | |
|---|-------------------|
| Beginning balance at June 30, 2005, as previously reported | \$ 193,694 |
| Cash balances not previously reported | <u>86,385</u> |
| Beginning balance, at July 1, 2005, as restated | <u>\$ 280,079</u> |

City of Elk Horn

Required Supplementary Information

City of Elk Horn
 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 | \$ 115,672 | - |
| Tax increment financing | 40,130 | - |
| Other city tax | 44,957 | - |
| Licenses and permits | 1,478 | - |
| Use of money and property | 12,106 | 637 |
| Intergovernmental | 359,155 | - |
| Charges for service | 19,312 | 222,203 |
| Miscellaneous | 391,137 | 2,170 |
| Total receipts | <u>983,947</u> | <u>225,010</u> |
| Disbursements: | | |
| Public safety | 218,586 | - |
| Public works | 86,846 | - |
| Culture and recreation | 65,699 | - |
| General government | 173,379 | - |
| Debt service | 49,057 | - |
| Business type activities | - | 625,772 |
| Total disbursements | <u>593,567</u> | <u>625,772</u> |
| Excess of (deficiency) receipts over (under) disbursements | 390,380 | (400,762) |
| Other financing sources, net | - | 303,819 |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 390,380 | (96,943) |
| Balances beginning of year, as restated | 415,783 | 15,337 |
| Balances end of year | <u>\$ 806,163</u> | <u>(81,606)</u> |

See accompanying independent auditor's report.

| Total | Budgeted Amounts | | Final to Total Variance |
|-----------|------------------|-----------|-------------------------------|
| | Original | Final | |
| 115,672 | 110,746 | 110,746 | 4,926 |
| 40,130 | 40,000 | 40,000 | 130 |
| 44,957 | 50,307 | 50,307 | (5,350) |
| 1,478 | 1,000 | 1,000 | 478 |
| 12,743 | 4,000 | 4,000 | 8,743 |
| 359,155 | 74,559 | 74,559 | 284,596 |
| 241,515 | 239,200 | 239,200 | 2,315 |
| 393,307 | 2,260 | 2,260 | 391,047 |
| 1,208,957 | 522,072 | 522,072 | 686,885 |
| 218,586 | 27,468 | 177,468 | (41,118) |
| 86,846 | 87,698 | 112,698 | 25,852 |
| 65,699 | 61,300 | 66,300 | 601 |
| 173,379 | 42,488 | 182,488 | 9,109 |
| 49,057 | 44,705 | 80,705 | 31,648 |
| 625,772 | 246,053 | 828,053 | 202,281 |
| 1,219,339 | 509,712 | 1,447,712 | 228,373 |
| (10,382) | 12,360 | (925,640) | 915,258 |
| 303,819 | - | 900,000 | (596,181) |
| 293,437 | 12,360 | (25,640) | 319,077 |
| 431,120 | 297,001 | 297,001 | 134,119 |
| 724,557 | 309,361 | 271,361 | 453,196 |

City of Elk Horn

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 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 \$938,000. 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 safety function.

Other Supplementary Information

City of Elk Horn

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2006

| | Special Revenue | |
|--|-----------------|--------------------------------|
| | Road Use Tax | Urban Renewal Tax Increment |
| Receipts: | | |
| Property tax | \$ - | - |
| Tax increment financing | - | 40,130 |
| Intergovernmental | 54,338 | - |
| Total receipts | 54,338 | 40,130 |
| Disbursements: | | |
| Operating: | | |
| Public works | 52,785 | 29,480 |
| Debt service | - | - |
| Total disbursements | 52,785 | 29,480 |
| Excess (deficiency) of receipts over (under) disbursements | 1,553 | 10,650 |
| Other financing sources: | | |
| Operating transfers in | - | - |
| Net change in cash balances | 1,553 | 10,650 |
| Cash balances beginning of year | 23,762 | 10,121 |
| Cash balances end of year | 25,315 | 20,771 |
| Cash Basis Fund Balances | | |
| Unreserved: | | |
| Special revenue funds | \$ 25,315 | 20,771 |
| Capital projects fund | - | - |
| Total cash basis fund balances | \$ 25,315 | 20,771 |

See accompanying independent auditor's report.

| Employee Benefits | Capital Projects | Debt Service | Total |
|-------------------|------------------|--------------|----------|
| - | 6,592 | 12,814 | 19,406 |
| - | - | - | 40,130 |
| - | - | - | 54,338 |
| - | 6,592 | 12,814 | 113,874 |
| - | - | - | 82,265 |
| - | - | 42,297 | 42,297 |
| - | - | 42,297 | 124,562 |
| - | 6,592 | (29,483) | (10,688) |
| - | - | 29,812 | 29,812 |
| - | 6,592 | 329 | 19,124 |
| 12 | 9,137 | (329) | 42,703 |
| 12 | 15,729 | - | 61,827 |
| 12 | - | - | 46,098 |
| - | 15,729 | - | 15,729 |
| 12 | 15,729 | - | 61,827 |

City of Elk Horn

City of Elk Horn

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2006

| | Sewer | Solid Waste | Total |
|---|-------------------|----------------|-----------------|
| Operating receipts: | | | |
| Charges for service | \$ 36,339 | 46,678 | 83,017 |
| Miscellaneous | 250 | - | 250 |
| Total operating receipts | <u>36,589</u> | <u>46,678</u> | <u>83,267</u> |
| Operating disbursements: | | | |
| Business type activities | 46,360 | 48,896 | 95,256 |
| Deficiency of operating receipts under operating disbursements | <u>(9,771)</u> | <u>(2,218)</u> | <u>(11,989)</u> |
| Non-operating receipts: | | | |
| Interest on investments | 19 | - | 19 |
| Miscellaneous | 1,145 | - | 1,145 |
| Total non-operating receipts | <u>1,164</u> | <u>-</u> | <u>1,164</u> |
| Net change in cash balances | (8,607) | (2,218) | (10,825) |
| Cash balances beginning of year | 220 | 19,153 | 19,373 |
| Cash balances end of year | <u>\$ (8,387)</u> | <u>16,935</u> | <u>8,548</u> |
| Cash Basis Fund Balances | | | |
| Unreserved | <u>\$ (8,387)</u> | <u>16,935</u> | <u>8,548</u> |

See accompanying independent auditor's report.

City of Elk Horn
 Schedule of Indebtedness
 Year ended June 30, 2006

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|---------------------------|---------------------------|----------------|--------------------------|
| General obligation notes: | | | |
| Water | Oct 1, 1995 | 4.60 - 6.10% | \$ 130,000 |
| Revenue bonds: | | | |
| Water | Jan 29, 1980 | 5.00% | \$ 339,800 |
| Water | Dec 1, 2001 [▼] | 3.53 | 450,000 |
| Water | Apr 28, 2006 [▼] | 3.00 | 500,000 |
| Total | | | |

See accompanying independent auditor's report.

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid | Interest Due and Unpaid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|-------------------------------|
| 40,000 | - | 40,000 | - | 1,817 | - |
| 154,639 | - | 12,564 | 142,075 | 7,583 | - |
| 383,000 | - | 18,000 | 365,000 | 13,520 | - |
| - | 303,819 | - | 303,819 | 14 | 2,486 |
| \$ 537,639 | 303,819 | 30,564 | 810,894 | 21,117 | 2,486 |

Schedule 4

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

| Grantor/Program | CFDA Number | Agency Pass-through Number | Program Expenditures |
|---|----------------|----------------------------------|-------------------------|
| Direct: | | | |
| U.S. Department of Homeland Security: Assistance to Firefighters Grant | 97.044 | EMW-2004-FG-09292 | \$ 157,700 |
| Indirect: | | | |
| U.S. Department of Agriculture: Iowa Department of Natural Resources: Cooperative Forestry Assistance | 10.664 | 03DG11244225-522 | 9,742 |
| U.S. Department of Housing and Urban Development: Iowa Department of Economic Development: Community Development Block Grants/ State's Program | 14.228 | 05-WS-034 | 113,209 |
| U.S Environmental Protection Agency: Iowa Department of Natural Resources: Capitalization Grants for Drinking Water State Revolving Fund | 66.468 | FS-83-05-DSWRF-028 | 238,488 |
| Total Indirect | | | 361,439 |
| Total | | | \$ 519,139 |

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Elk Horn 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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Auditor of State

State Capitol Building
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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 Horn, 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 March 27, 2007. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 Horn'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 Horn'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 items II-A-06 and II-D-06 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Elk Horn'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 Horn and other parties to whom the City of Elk Horn 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 Horn 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

March 27, 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 Horn



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 Horn, 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 each of its major federal programs for the year ended June 30, 2006. The City of Elk Horn's major federal programs are 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 programs is the responsibility of the City of Elk Horn's management. Our responsibility is to express an opinion on the City of Elk Horn'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 programs occurred. An audit includes examining, on a test basis, evidence about City of Elk Horn's 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 Horn's compliance with those requirements.

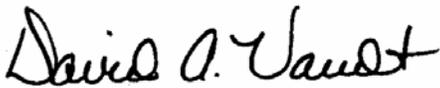
In our opinion, the City of Elk Horn complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

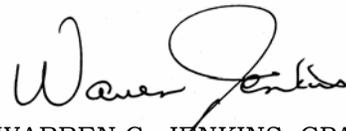
The management of the City of Elk Horn is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Elk Horn'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 grants 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 Horn and other parties to whom the City of Elk Horn 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

March 27, 2007

City of Elk Horn

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

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

- (a) Unqualified 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 material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each 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 programs were CFDA Number 14.228 – Community Development Block Grants/State's Program and CFDA Number 66.468 – Capitalization Grants for Drinking Water State Revolving Fund.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Elk Horn did not qualify as a low-risk auditee.

City of Elk Horn

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. For the City, one individual has control over each of the following areas:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – initiating cash receipts and disbursement functions and handling and recording cash.
- (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (4) Long term debt – recording and reconciling.
- (5) Receipts – opening mail receipts, collecting, depositing, journalizing, maintaining the deposit/check register and posting.
- (6) Disbursements – check preparation, purchasing, check signing, recording, maintaining the check register and reconciling.
- (7) Payroll – approval, input of information, preparing and distributing.
- (8) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.
- (9) Financial reporting – preparing, reconciling and distributing.

For the Fire Department, one individual has control over each of the following areas:

- (1) Receipts - collecting, depositing, posting and reconciling.
- (2) Disbursements - check preparation, check signing, recording, maintaining the check register and reconciling.
- (3) Cash – preparing bank reconciliations, handling and recording cash.

For the Rescue Department, one individual has control over each of the following areas:

- (1) Receipts - collecting, depositing, posting and reconciling.
- (2) Disbursements - check preparation, check signing, recording, maintaining the check register and reconciling.
- (3) Cash – preparing bank reconciliations, handling and recording cash.

City of Elk Horn

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City, Fire and Rescue Departments should review their operating procedures to obtain the maximum internal control possible under the circumstances.

Response –

City – We will take your recommendations under advisement and try to segregate duties as much as possible. However, with only one office employee it is difficult, so whenever possible, we will try to utilize review procedures by the Mayor or a Council Member and make sure any review procedures are documented. Also, we plan to have the Mayor or a Council Member co-sign all checks.

Fire Department – All bills and receipts are reviewed by the Department at each meeting, however, we will also discuss your recommendations when the audit report is received and review our system to see if there are any procedures which could be put in place to further segregate duties.

Rescue Department – All bills and receipts will be reviewed and approved by all members at the meeting prior to payment. Also, we will discuss your recommendations when the audit report is received and review our system to see if there are any other procedures which could be put in place to further segregate duties.

Conclusion – Responses accepted.

II-B-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 computer based financial systems were noted:

The City does not have written policies for:

- requiring password changes because software does not require the user to change log-ins/passwords periodically.
- ownership of in-house developed software and data.
- requiring backups be performed daily rather than just weekly, monthly and yearly.
- ensuring only software licensed to the City is installed on computers and monitoring software licensing requirements to ensure the City is in compliance.
- addressing information systems security.

City of Elk Horn

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Also, the City does not require back up tapes to be stored off site daily in a secure location, and the City does not have a written 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 financial systems. The City should also require off-site storage of backup tapes and a written disaster recovery plan should be developed.

Response – We plan to require backup each day the computer is used. (We will use the thumb drive as second backup.) Also, we will take the other items recommended under advisement and consider including them in our written computer policies.

Conclusion – Response accepted.

- II-C-06 Separately Maintained Records – The Elk Horn Fire and Rescue Departments maintain separate accounting records for their operations. These transactions and resulting balances are not included in the City's accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and be reported to the Council on a monthly basis.

Response – We will include the Fire Department and the Rescue Squad operations in our reports as well as in the budget.

Conclusion – Response accepted.

- II-D-06 Utility Billings, Collection and Delinquencies - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation - Procedures should be established to reconcile billings, collections and delinquencies monthly for the utility accounts receivables. The City Council or Mayor should review the reconciliations monthly and variances, if any, should be resolved timely.

Response – We will reconcile accounts receivable, billings and collections each month and report to the Council.

Conclusion – Response accepted.

City of Elk Horn

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

- II-E-06 Prenumbered Receipts - Although prenumbered receipts were issued, they were not issued for all collections.

Recommendation - Prenumbered receipts should be issued for all collections at the time of collection to provide additional control over the proper collection and recording of all money. Prenumbered receipts issued should be accounted for by someone independent of the receipts process.

Response - We will consider issuing prenumbered receipts for all collections.

Conclusion - Response acknowledged. Issuing prenumbered receipts for all moneys collected provides an audit trail to ensure the timeliness of receipting and depositing along with a basis for review by an independent person from initial receipting through the system to the receipts register computer printout.

- II-F-06 Disbursements - Invoices were not properly marked paid to help prevent possible duplicate payment of invoices.

Recommendation - All paid invoices should be marked or stamped paid with the date of payment to aid in preventing possible duplicate payment of invoices.

Response - All paid invoices will be stamped on all pages.

Conclusion - Response accepted.

INSTANCE OF NON-COMPLIANCE:

No matters were reported.

City of Elk Horn

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 reported.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over major programs were noted.

City of Elk Horn

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part IV: Other Findings Related to Statutory Reporting:

IV-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amount budgeted in the public safety function. 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 will do a better job of amending the budget to comply with the Code of Iowa.

Conclusion – Response accepted.

IV-B-06 Questionable Disbursements – Certain disbursements were noted which may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

| <u>Paid to</u> | <u>Purpose</u> | <u>Amount</u> |
|-----------------------|-----------------|---------------|
| Danish Windmill Corp. | Retirement gift | \$52 |

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved closed scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by this disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

Response – We will establish procedures so that we show public benefits from any such disbursements in the future.

Conclusion – Response accepted.

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

City of Elk Horn

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

- IV-D-06 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|--|--------------------------------|--------|
| Gene Mardesen, Council Member, owner of G & S Service Center | Vehicle maintenance and repair | \$ 522 |

In accordance with Chapter 362.5(10) of the Code of Iowa, these transactions do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

- 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 ensure 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.

Although minutes of Council proceedings were published, they did not include total disbursements for each fund as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and publish minutes as required.

Response – We will publish total disbursements for each fund as required by the Code of Iowa.

Conclusion – Response accepted.

- IV-G-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted. However, the current investment policy on file adopted by the Council does not contain the correct references to the Code of Iowa.

Recommendation – An updated investment policy should be adopted by the Council with correct references to Chapters 12B and 12C of the Code of Iowa.

Response – We will comply with the recommendation.

Conclusion – Response accepted.

City of Elk Horn

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

IV-H-06 Water Revenue Bond Resolutions – The water revenue bond resolutions require the establishment of separate water revenue bond sinking accounts in order to make the principal and interest payments. However, the City has not made the required transfers to sinking accounts in order to make the debt payments. Also, one of the debt issues requires the City to establish a reserve account, which the City has done, but the balance does not equal the required amount and the City is using it for making the principal and interest payments.

Recommendation – The City should review the three water revenue bond resolutions and comply with the provisions detailed within them.

Response – We will comply with reserve account and sinking fund requirements.

Conclusion – Response accepted.

IV-I-06 City Code – The City Code has not been recodified within the past five years. Chapter 380.8 of the Code of Iowa states, in part, "At least once every five years, a City shall compile a code of ordinances containing all City ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances, and ordinances vacating streets and alleys."

Recommendation – The City should recodify its City Code as required by the Code of Iowa.

Response – SWIPCO has been engaged to update the ordinances.

Conclusion – Response accepted.

IV-J-06 Emergency Fund – Chapter 384.8 of the Code of Iowa states "A City may establish an emergency fund and may certify taxes not to exceed twenty-seven cents per thousand dollars of taxable value each year to be levied for the fund. Transfers may be made from the emergency fund to the general fund as provided in rules promulgated by the city finance committee created in section 384.13". The City levied property tax for an Emergency Fund but recorded the property tax in the General Fund rather than in a separate Emergency Fund.

Recommendation – The City should review this for compliance with the Code of Iowa.

Response – We will comply.

Conclusion – Response accepted.

City of Elk Horn

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

IV-K-06 Financial Condition - The Enterprise, Water and Sewer Funds had deficit balances at June 30, 2006 of \$90,154 and \$8,387, respectively.

Recommendation - The City should continue to investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

Response - New water lines should decrease disbursements and sewer rates will be raised.

Conclusion - Response accepted.

IV-L-06 Utility Receipts - The full-time City employee is not being billed for water, sales tax and sewer utility services. In accordance with Chapter 388.6 of the Code of Iowa, a City utility may not provide its services at a discriminatory rate.

Recommendation - The City utility should bill all customers in accordance with established rates as required by Chapter 388.6 of the Code of Iowa.

Response - The Council will take your recommendation under advisement and take steps to ensure we are in compliance with the Code of Iowa.

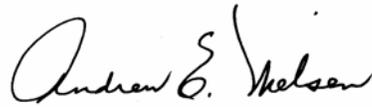
Conclusion - Response accepted.

City of Elk Horn

Staff

This audit was performed by:

Kay F. Dunn, CPA, Manager
Nancy F. Curtis, CPA, Senior Auditor II
Sharon K. Stickrod, Assistant Auditor
Aaron P. Wagner, Assistant 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 a distinct 'E'.

Andrew E. Nielsen, CPA
Deputy Auditor of State