



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

Richard D. Johnson, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Warren G. Jenkins, CPA
Chief Deputy Auditor of State

NEWS RELEASE

FOR RELEASE September 16, 2002

Contact: Andy Nielsen
515/281-5515

Auditor of State Richard Johnson today released an audit report on the City of Elk Run Heights, Iowa.

Johnson reported that the City's receipts totaled \$593,262 for the year ended June 30, 2002. The receipts included \$133,379 in property tax, \$93,843 in local option sales tax, \$95,388 from the state, \$5,313 from the federal government and \$33,804 in interest on investments. The City also received note proceeds of \$249,000 that are reported as an other financing source.

Disbursements for the year totaled \$771,352, and included \$181,515 for community protection, \$18,586 for human development, \$480,147 for home and community environment and \$91,104 for policy and administration.

This report contains recommendations to the City Council and other City officials. For example, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances and reconcile utility billings, collections and delinquent accounts. The City has responded that operating procedures will be reviewed and quarterly utility reconciliation reports will be prepared.

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

###

CITY OF ELK RUN HEIGHTS
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2002

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5
Financial Statements:	<u>Exhibit</u>	
Combined Statement of Cash Transactions – All Fund Types	A	8-9
Comparison of Receipts, Disbursements and Changes in Balances – Actual to Budget	B	11
Statement of Indebtedness	C	12-13
Notes to Financial Statements		14-18
Supplemental Information:	<u>Schedule</u>	
Combining and Individual Schedules of Cash Transactions:		
General Fund	1	20-22
Special Revenue Funds	2	23-24
Debt Service Fund	3	25
Capital Projects	4	26
Enterprise Funds	5	28-31
Trust Fund	6	32
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		33-34
Schedule of Findings		35-37
Staff		38

City of Elk Run Heights

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2002)		
William R. Henninger, II	Mayor	Jan 2002
E. K. (Al) Cross	Mayor Pro tem	Jan 2002
Dennis Bass	Council Member	Jan 2002
Ron Ratchford	Council Member	Jan 2002
Mike Russell	Council Member	Jan 2002
Todd Winstead	Council Member	Jan 2002
Beverly A. Musch	City Clerk	Indefinite
Milton Hartley	City Treasurer	Indefinite
Carter Stevens	City Attorney	Indefinite
(After January 2002)		
William R. Henninger, II	Mayor	Jan 2004
Mike Russell	Mayor Pro tem	Jan 2004
Dennis Bass	Council Member	Jan 2004
Robert Hertges	Council Member	Jan 2004
Ron Ratchford	Council Member	Jan 2004
Todd Winstead	Council Member	Jan 2004
Beverly A. Musch	City Clerk	Retired July 2002
Kristi Lundy (Appointed)	City Clerk	Indefinite
Carter Stevens	City Attorney	Indefinite

City of Elk Run Heights



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

Richard D. Johnson, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Warren G. Jenkins, CPA
Chief Deputy Auditor of State

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of Elk Run Heights, Iowa, as of and for the year ended June 30, 2002. These financial statements are the responsibility of the City of Elk Run Heights' management. Our responsibility is to express an opinion 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As 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, 2001.

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, 2001, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Elk Run Heights as of and for the year ended June 30, 2002, and its indebtedness at June 30, 2002, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 8, 2002, 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 and contracts. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

RICHARD D. JOHNSON, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 8, 2002

City of Elk Run Heights

Financial Statements

City of Elk Run Heights
 Combined Statement of Cash Transactions
 All Fund Types
 Year ended June 30, 2002

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Receipts:			
Property tax	\$ 133,379	-	-
Other city tax	5,204	93,843	-
Licenses and permits	10,809	-	-
Use of money and property	12,545	7,849	-
Intergovernmental	16,439	84,262	-
Charges for service	-	-	-
Miscellaneous	867	-	206
Total receipts	<u>179,243</u>	<u>185,954</u>	<u>206</u>
Disbursements:			
Community Protection Program	54,555	5,327	121,633
Human Development Program	18,586	-	-
Home and Community Environment Program	25,478	72,727	194,648
Policy and Administration Program	91,104	-	-
Total disbursements	<u>189,723</u>	<u>78,054</u>	<u>316,281</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(10,480)</u>	<u>107,900</u>	<u>(316,075)</u>
Other financing sources (uses):			
Note proceeds, net of \$1,000 discount	-	-	249,000
Sale of land	-	-	-
Operating transfers in	32,000	-	68,858
Operating transfers out	(30,000)	(68,858)	-
Total other financing sources (uses)	<u>2,000</u>	<u>(68,858)</u>	<u>317,858</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>(8,480)</u>	<u>39,042</u>	<u>1,783</u>
Balance beginning of year	<u>150,940</u>	<u>263,688</u>	<u>-</u>
Balance end of year	<u>\$ 142,460</u>	<u>302,730</u>	<u>1,783</u>

See notes to financial statements.

Capital Project	Proprietary Fund Type Enterprise	Fiduciary Fund Type Trust	Total (Memorandum Only)
-	-	-	133,379
-	-	-	99,047
-	-	-	10,809
-	15,942	268	36,604
-	26,637	-	127,338
-	182,873	-	182,873
-	2,139	-	3,212
-	227,591	268	593,262
-	-	-	181,515
-	-	-	18,586
4,284	183,010	-	480,147
-	-	-	91,104
4,284	183,010	-	771,352
(4,284)	44,581	268	(178,090)
-	-	-	249,000
65,000	-	-	65,000
-	35,500	-	136,358
-	(35,500)	(2,000)	(136,358)
65,000	-	(2,000)	314,000
60,716	44,581	(1,732)	135,910
-	370,218	5,371	790,217
60,716	414,799	3,639	926,127

City of Elk Run Heights

City of Elk Run Heights
 Comparison of Receipts, Disbursements and Changes in Balances -
 Actual to Budget
 Year ended June 30, 2002

	Actual	Amended Budget	Variance Favorable (Unfavorable)	Actual as % of Amended Budget
Receipts:				
Property tax	\$ 133,379	131,890	1,489	101%
Other city tax	99,047	77,653	21,394	128%
Licenses and permits	10,809	4,600	6,209	235%
Use of money and property	36,604	31,800	4,804	115%
Intergovernmental	127,338	102,100	25,238	125%
Charges for service	182,873	199,900	(17,027)	91%
Miscellaneous	3,212	2,400	812	134%
Total receipts	<u>593,262</u>	<u>550,343</u>	<u>42,919</u>	<u>108%</u>
Disbursements:				
Community Protection Program	181,515	242,342	60,827	75%
Human Development Program	18,586	19,346	760	96%
Home and Community Environment Program	480,147	448,225	(31,922)	107%
Policy and Administration Program	91,104	91,416	312	100%
Total disbursements	<u>771,352</u>	<u>801,329</u>	<u>29,977</u>	<u>96%</u>
Deficiency of receipts under disbursements	(178,090)	(250,986)		
Other financing sources, net	<u>314,000</u>	<u>250,000</u>		
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	135,910	(986)		
Balance beginning of year	<u>790,217</u>	<u>710,048</u>		
Balance end of year	<u>\$ 926,127</u>	<u>709,062</u>		

See notes to financial statements.

City of Elk Run Heights
Statement of Indebtedness
Year ended June 30, 2002

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Essential corporate purpose	Feb 1, 1990	6.70-7.00%	\$ 450,000
General obligation capital loan notes:			
Essential corporate purpose	Mar 1, 1995	5.65-5.90%	\$ 325,000
Refunding (note 3)	Apr 1, 2002	2.50-3.40%	250,000
Total			

See notes to financial statements.

Balance Beginning of Year	Purchased During Year	Redeemed During Year	Balance End of Year	Interest Paid
115,000	-	115,000	-	6,633
175,000	-	175,000	-	12,225
-	250,000	-	250,000	-
<u>\$ 175,000</u>	<u>250,000</u>	<u>175,000</u>	<u>250,000</u>	<u>12,225</u>

City of Elk Run Heights

Notes to Financial Statements

June 30, 2002

(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, culture, recreation, public improvements and general administrative services.

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 of Elk Run Heights has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also 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. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and fund balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are 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 that are not paid through other funds.

Special Revenue Funds - The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

Debt Service Fund - The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation and special assessment long-term debt.

Capital Projects Fund - The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through the enterprise fund.

Proprietary Funds

Enterprise Funds - The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Fiduciary Funds

Trust Fund - The Trust Fund is used to account for monies and properties received and held by the City in a trustee capacity. This includes an expendable trust fund.

C. 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.

D. Budgets and Budgetary Accounting

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 four major classes of disbursements, known as programs, not by fund. These four programs are community protection, human development, home and community environment and policy and administration.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial

analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2002 were entirely covered by federal depository insurance or 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.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$215,147 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Notes Payable

On April 1, 2002, the City of Elk Run Heights issued \$250,000 of general obligation capital loan refunding notes. These notes were used to refund the City's general obligation essential corporate purpose bonds and notes, dated February 1, 1990 and March 1, 1995, respectively. The essential corporate purpose bonds and notes were called for redemption as of June 1, 2002 and have all been retired as of June 30, 2002.

Annual debt service requirements to maturity for general obligation capital loan notes are as follows:

Year Ending June 30,	Interest Rates	General Obligation Capital Loan Refunding Notes	
		Principal	Interest
2003	2.5%	\$ 80,000	7,440
2004	3.0%	85,000	5,440
2005	3.4%	85,000	2,890
Total		\$ 250,000	15,770

(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.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2002 was \$5,549, equal to the required contribution for that year.

(5) Compensated Absences

City employees accumulate 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 maximum liability for unrecognized accrued employee benefits at June 30, 2002, primarily relating to the General Fund, is \$4,200. This liability has been computed based on rates of pay in effect at June 30, 2002.

(6) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 384.12 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose over 400 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if 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 annual contributions to the Pool for the year ended June 30, 2002 were \$5,665.

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 \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks, including automobile damage, are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2002, settled claims have not exceeded the risk pool or reinsurance company 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 contribution which the withdrawing member would have made for the one-year period following withdrawal.

(7) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the program level. During the year ended June 30, 2002 disbursements in the Home and Community Environment Program exceeded the amount budgeted. In addition, actual disbursements in the Human Development Program exceeded the budgeted amount prior to the budget amendment.

(8) Construction Contract

During the year ended June 30, 2002, the City entered into a construction contract for sanitary sewer and water main extensions totaling \$26,832. At June 30, 2002 no payments have been made. The first payment was made in July 2002 for \$25,609 and was paid with available local sources. The remaining balance will be paid as work on the project progresses.

Supplemental Information

Schedule 1

City of Elk Run Heights
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	Capital Improvement		
	General	Reserve	Total
Receipts:			
Property tax	\$ 133,379	-	133,379
Other city tax:			
Utility tax replacement excise tax	1,233	-	1,233
Cable franchise fee	3,971	-	3,971
	5,204	-	5,204
Licenses and permits:			
Liquor	590	-	590
Cigarette	150	-	150
Building	9,948	-	9,948
Pet	121	-	121
	10,809	-	10,809
Use of money and property:			
Interest on investments	7,175	2,570	9,745
Rent	2,800	-	2,800
	9,975	2,570	12,545
Intergovernmental:			
State hazard mitigation grant	5,715	-	5,715
State allocation	10,724	-	10,724
	16,439	-	16,439
Miscellaneous:			
Court fines	323	-	323
Miscellaneous	544	-	544
	867	-	867
Total receipts	176,673	2,570	179,243
Disbursements:			
Community Protection Program :			
Police:			
Law enforcement agreement	36,386	-	36,386
Street lighting	546	-	546

City of Elk Run Heights
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	Capital Improvement		Total
	General	Reserve	
Disbursements (continued):			
Community Protection Program:			
Emergency management	661	-	661
Fire:			
Contractual services	16,962	-	16,962
	<u>54,555</u>	<u>-</u>	<u>54,555</u>
Human Development Program:			
Animal control	110	-	110
Parks and Recreation:			
Personal services	7,200	-	7,200
Commodities	2,953	-	2,953
	<u>10,153</u>	<u>-</u>	<u>10,153</u>
Library:			
Contractual services	8,323	-	8,323
	<u>18,586</u>	<u>-</u>	<u>18,586</u>
Home and Community Environment Program:			
Building inspection:			
Personal services	7,619	-	7,619
Capital outlay	16,441	-	16,441
	<u>24,060</u>	<u>-</u>	<u>24,060</u>
Environmental:			
Commodities	720	-	720
Partners in education:			
Commodities	698	-	698
	<u>25,478</u>	<u>-</u>	<u>25,478</u>
Policy and Administration Program:			
Mayor/council/treasurer:			
Personal services	6,380	-	6,380
City Clerk:			
Personal services	39,825	-	39,825
Contractual services	9,251	-	9,251
Commodities	6,489	-	6,489
	<u>55,565</u>	<u>-</u>	<u>55,565</u>

Schedule 1

City of Elk Run Heights
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	Capital Improvement		
	General	Reserve	Total
Disbursements (continued):			
Policy and Administration Program:			
Elections	785	-	785
Legal services	11,837	-	11,837
Administrative:			
Personal services	1,392	-	1,392
Contractual services	11,583	-	11,583
Commodities	1,204	-	1,204
Capital outlay	2,358	-	2,358
	16,537	-	16,537
	91,104	-	91,104
Total disbursements	189,723	-	189,723
Excess (deficiency) of receipts over (under) disbursements	(13,050)	2,570	(10,480)
Other financing sources (uses):			
Operating transfers in (out):			
General:			
General	-	30,000	30,000
Capital Improvement Reserve	(30,000)	-	(30,000)
Trust:			
Kid's City	2,000	-	2,000
Total other financing sources	(28,000)	30,000	2,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(41,050)	32,570	(8,480)
Balance beginning of year	72,063	78,877	150,940
Balance end of year	\$ 31,013	111,447	142,460

See accompanying independent auditor's report.
See accompanying independent auditor's report.

City of Elk Run Heights
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2002

	Road Use Tax	Local Option Sales Tax	Total
Receipts:			
Other City tax:			
Local option sales tax	\$ -	93,843	93,843
Use of money and property:			
Interest on investments	-	7,849	7,849
Intergovernmental:			
Road use tax allocation	84,262	-	84,262
Total receipts	84,262	101,692	185,954
Disbursements:			
Community Protection Program:			
Street lighting	5,068	-	5,068
Traffic control	259	-	259
	<u>5,327</u>	<u>-</u>	<u>5,327</u>
Home and Community Environment Program:			
Street maintenance:			
Personal services	24,858	-	24,858
Contractual services	14,472	-	14,472
Commodities	6,117	-	6,117
Capital outlay	27,280	-	27,280
	<u>72,727</u>	<u>-</u>	<u>72,727</u>
Total disbursements	78,054	-	78,054
Excess of receipts over disbursements	6,208	101,692	107,900

Schedule 2

City of Elk Run Heights
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2002

	Road Use Tax	Local Option Sales Tax	Total
Other financing uses:			
Operating transfers out:			
Debt Service	-	(68,858)	(68,858)
Excess of receipts over disbursements and other financing uses	6,208	32,834	39,042
Balance beginning of year	58,729	204,959	263,688
Balance end of year	\$ 64,937	237,793	302,730

See accompanying independent auditor's report.

City of Elk Run Heights
 Schedule of Cash Transactions
 Debt Service Fund
 Year ended June 30, 2002

Receipts:	
Miscellaneous:	
Accrued interest on sale of capital loan refunding notes	\$ 206
Disbursements:	
Community Protection Program:	
Debt service:	
Principal redemption	115,000
Interest payments	6,633
	<u>121,633</u>
Home and Community Environment Program:	
Refunding note issuance costs	7,423
Debt service:	
Principal redemption	175,000
Interest payments	12,225
	<u>194,648</u>
Total disbursements	<u>316,281</u>
Deficiency of receipts under disbursements	<u>(316,075)</u>
Other financing sources:	
Note proceeds, net of \$1,000 discount	249,000
Operating transfers in:	
Special Revenue:	
Local Option Sales Tax	68,858
	<u>317,858</u>
Excess of receipts and other financing sources over disbursements	1,783
Balance beginning of year	<u>-</u>
Balance end of year	<u>\$ 1,783</u>

See accompanying independent auditor's report.

Schedule 4

City of Elk Run Heights
Schedule of Cash Transactions
Capital Projects Fund
Year ended June 30, 2002

Receipts:	
None	\$ -
Disbursements:	
Home and Community Environment Program:	
Contractual services	<u>4,284</u>
Deficiency of receipts under disbursements	(4,284)
Other financing sources:	
Sale of land	<u>65,000</u>
Excess of receipts and other financing sources over disbursements	60,716
Balance beginning of year	<u>-</u>
Balance end of year	<u><u>\$ 60,716</u></u>

See accompanying independent auditor's report.

City of Elk Run Heights

City of Elk Run Heights
Combining Schedule of Cash Transactions

Enterprise Funds

Year ended June 30, 2002

	Water	Water Depreciation	Water Deposits
Receipts:			
Use of money and property:			
Interest on investments	\$ 127	4,427	-
Intergovernmental:			
City of Raymond	-	-	-
Charges for service:			
Sale of water	69,019	-	-
Installations and connections	1,211	-	-
Sanitation fees	-	-	-
Sewer rental fees	-	-	-
Miscellaneous	989	-	-
	<u>71,219</u>	<u>-</u>	<u>-</u>
Miscellaneous:			
Customer deposits	-	-	770
Total receipts	<u>71,346</u>	<u>4,427</u>	<u>770</u>
Disbursements:			
Home and Community Environment Program:			
Personal services	15,787	-	-
Contractual services	31,536	-	383
Commodities	1,921	-	-
Total disbursements	<u>49,244</u>	<u>-</u>	<u>383</u>
Excess (deficiency) of receipts over (under) disbursements	<u>22,102</u>	<u>4,427</u>	<u>387</u>

Sewer Rental	Sewer Replacement	Sewer Depreciation	Sewer Deposits	Solid Waste	Solid Waste Deposits	Total
79	10,347	962	-	-	-	15,942
26,637	-	-	-	-	-	26,637
-	-	-	-	-	-	69,019
-	-	-	-	-	-	1,211
-	-	-	-	30,089	-	30,089
77,264	-	-	-	-	-	77,264
94	-	-	-	4,207	-	5,290
77,358	-	-	-	34,296	-	182,873
-	-	-	947	-	422	2,139
104,074	10,347	962	947	34,296	422	227,591
31,424	-	-	-	-	-	47,211
60,064	-	-	410	28,154	153	120,700
13,178	-	-	-	-	-	15,099
104,666	-	-	410	28,154	153	183,010
(592)	10,347	962	537	6,142	269	44,581

City of Elk Run Heights
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2002

	Water	Water Depreciation	Water Deposits
Other financing sources (uses):			
Operating transfers in (out):			
Enterprise:			
Water	-	25,000	-
Water Depreciation	(25,000)	-	-
Sewer Rental	-	-	-
Sewer Replacement	-	-	-
Sewer Depreciation	-	-	-
Total other financing sources	(25,000)	25,000	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(2,898)	29,427	387
Balance beginning of year	51,623	84,552	7,924
Balance end of year	\$ 48,725	113,979	8,311

See accompanying independent auditor's report.

Sewer Rental	Sewer Replacement	Sewer Depreciation	Sewer Deposits	Solid Waste	Solid Waste Deposits	Total
-	-	-	-	-	-	25,000
-	-	-	-	-	-	(25,000)
-	9,000	1,500	-	-	-	10,500
(9,000)	-	-	-	-	-	(9,000)
(1,500)	-	-	-	-	-	(1,500)
(10,500)	9,000	1,500	-	-	-	-
(11,092)	19,347	2,462	537	6,142	269	44,581
11,234	152,257	41,081	7,007	12,505	2,035	370,218
142	171,604	43,543	7,544	18,647	2,304	414,799

Schedule 6

City of Elk Run Heights
Schedule of Cash Transactions
Trust Fund
Year ended June 30, 2002

	<u>Expendable Trust Kid's City</u>
Receipts:	
Use of money and property:	
Interest on investments	\$ 268
Disbursements:	
None	-
Excess of receipts over disbursements	268
Other financing uses:	
Operating transfer out:	
General	<u>(2,000)</u>
Deficiency of receipts under disbursements and other financing uses	(1,732)
Balance beginning of year	<u>5,371</u>
Balance end of year	<u>\$ 3,639</u>

See accompanying independent auditor's report.



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

Richard D. Johnson, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Warren G. Jenkins, CPA
Chief Deputy Auditor of State

**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Elk Run Heights, Iowa, as of and for the year ended June 30, 2002, and have issued our report thereon dated August 8, 2002. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2001.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Elk Run Heights' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City of Elk Run Heights' operations for the year ended June 30, 2002 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Elk Run Heights' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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, we believe that reportable conditions (A) and (B) described above are material weaknesses. Prior audit reportable conditions have been resolved except for items (A), (B) and (C).

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. 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.

RICHARD D. JOHNSON, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 8, 2002

City of Elk Run Heights

Schedule of Findings

Year ended June 30, 2002

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

(A) 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. When duties are properly segregated, the activities of one employee act as a check on those of another. One person had control over each of the following areas for the City:

- (1) Cash - preparing bank account reconciliations, initiating cash receipts and disbursement functions and handling and recording cash.
- (2) Investments - detailed record keeping, custody of investments and reconciling earnings.
- (3) Receipts - collecting, depositing, journalizing and posting.
- (4) Utility receipts - billing, collecting, depositing, posting and reconciling.
- (5) 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 that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will review our procedures and make any changes possible.

Conclusion - Response accepted.

(B) Reconciliation of Utility Billings, Collections and Delinquencies - Utility billings, collections and delinquent accounts were not reconciled.

Recommendation - Procedures should be established to reconcile utility billings, collections and delinquencies. The Council or Council-designated independent person should review the reconciliations and monitor delinquencies.

Response - The City Clerk will prepare quarterly reconciliations.

Conclusion - Response accepted.

City of Elk Run Heights

Schedule of Findings

Year ended June 30, 2002

- (C) Electronic Data Processing Systems (Information System) – During our review of internal control, the existing control activities in the City’s computer-based systems were evaluated in order to determine that 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 systems were noted:

The City does not have written policies for:

- requiring password changes because software does not require the user to change logins/passwords periodically or to maintain password privacy.
- the storage of backup tapes/disks off site.
- the usage of the Internet.
- a disaster recovery plan
- alternative power sources.

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

Response – We will check with our software vendor about passwords. We will prepare written policies for internet usage, storage of backup tapes and disaster recovery plan. We will research the alternative power sources available on the market.

Conclusion – Response accepted.

City of Elk Run Heights

Schedule of Findings

Year ended June 30, 2002

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories - A resolution naming the official depositories has been approved by the City. The maximum deposit amounts stated in the resolution was exceeded during the year ended June 30, 2002.

Recommendation - A new depository resolution, in sufficient amounts, should be approved in accordance with Chapter 12C of the Code of Iowa.

Response - We will prepare a resolution to increase maximum amounts to ensure adequate coverage.

Conclusion - Response accepted.

- (2) Certified Budget - Disbursements during the year ended June 30, 2002 exceeded the amount budgeted in the Home and Community Environment Program. In addition, actual disbursements in the Human Development Program exceeded the budgeted amount prior to the budget amendment. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - Although the budget was amended, the budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed budgeted amounts.

Response - In the future, budget amendments will be in accordance with Chapter 384.18 of the Code of Iowa.

Conclusion - Response accepted.

- (3) Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

- (4) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- (5) Business Transactions - No business transactions between the City and City officials or employees were noted.

- (6) 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 that the coverage is adequate for current operations.

- (7) Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

- (8) Deposits and Investments - Except as noted in Comment (1) above, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

City of Elk Run Heights

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Matthew J. Anfinson, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State