



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE _____ June 19, 2003

Contact: Andy Nielsen
515/281-5515

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

The City's receipts totaled \$232,200 for the year ended June 30, 2002, and included \$51,325 in property tax, \$33,002 from the state, \$72,511 in charges for service, and \$1,427 in interest on investments.

Disbursements for the year totaled \$218,713, and included \$42,192 for community protection, \$48,828 for human development, \$108,501 for home and community environment and \$19,192 for policy and administration.

This report contains recommendations to the City Council and other City officials. For example, the City should segregate accounting duties to the extent possible with existing personnel and establish procedures to reconcile ledger balances to bank balances monthly. In addition, the City should reconcile utility billings, collections and delinquent accounts monthly. The City's responses are included in the report.

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 ELKHART
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	10-11
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	21-23
Special Revenue Funds	2	24-25
Debt Service Fund	3	26
Enterprise Funds	4	27
Independent Auditor’s Report on Compliance and on Internal Control over Financial Reporting		29-30
Schedule of Findings		31-37
Staff		38

City of Elkhart

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2002)		
Keith Miller	Mayor	Jan 2002
James Elmore	Council Member	Resigned
Lester Morris	Council Member	Jan 2002
Harold Wright	Council Member	Jan 2002
Douglas Jones	Council Member	Jan 2004
Michael Kappos	Council Member	Jan 2004
Gretchen Aldrich	City Clerk	Indefinite
Benjamin Ullem	City Attorney	Indefinite
(After January 2002)		
Todd Major	Mayor	Jan 2004
Ronald Adams (Appointed)	Council Member	Jan 2004
Douglas Jones	Council Member	Jan 2004
Michael Kappos	Council Member	Jan 2004
Lester Morris	Council Member	Jan 2006
Harold Wright	Council Member	Jan 2006
Gretchen Aldrich	City Clerk	Indefinite
Benjamin Ullem	City Attorney	Indefinite

City of Elkhart



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

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 Elkhart, Iowa, as of and for the year ended June 30, 2002. These financial statements are the responsibility of the City of Elkhart's 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 Elkhart 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 February 26, 2003 on our consideration of the City of Elkhart's 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 Government 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 4 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, 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 third preceding paragraph, is fairly stated, in all material respects, in relation to the aforementioned financial statements taken as a whole.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 26, 2003

City of Elkhart

Financial Statements

City of Elkhart
 Combined Statement of Cash Transactions
 All Fund Types
 Year ended June 30, 2002

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Receipts:			
Property tax	\$ 51,325	-	-
Other city tax	5,916	-	-
Licenses and permits	1,997	-	-
Use of money and property	1,380	47	-
Intergovernmental	16,121	28,995	-
Charges for service	5,381	-	-
Miscellaneous	30,914	18,290	-
Total receipts	<u>113,034</u>	<u>47,332</u>	<u>-</u>
Disbursements:			
Community Protection Program	34,611	7,581	-
Human Development Program	45,148	3,680	-
Home and Community Environment Program	24,239	26,526	12,340
Policy and Administration Program	19,192	-	-
Total disbursements	<u>123,190</u>	<u>37,787</u>	<u>12,340</u>
Excess (deficiency) of receipts over (under) disbursements	(10,156)	9,545	(12,340)
Balance beginning of year	<u>97,457</u>	<u>12,772</u>	<u>12,340</u>
Balance end of year	<u>\$ 87,301</u>	<u>22,317</u>	<u>-</u>

See notes to financial statements.

Proprietary Fund Type	Total (Memorandum Only)
Enterprise	
-	51,325
-	5,916
-	1,997
-	1,427
-	45,116
67,130	72,511
4,704	53,908
71,834	232,200
-	42,192
-	48,828
45,396	108,501
-	19,192
45,396	218,713
26,438	13,487
(39,776)	82,793
(13,338)	96,280

City of Elkhart

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget – Primary Government

Year ended June 30, 2002

	Actual	Less Fund not Required to be Budgeted
Receipts:		
Property tax	\$ 51,325	-
Other city tax	5,916	-
Licenses and permits	1,997	-
Use of money and property	1,427	47
Intergovernmental	45,116	-
Charges for service	72,511	-
Miscellaneous	53,908	8,075
Total receipts	<u>232,200</u>	<u>8,122</u>
Disbursements:		
Community Protection Program	42,192	7,581
Human Development Program	48,828	-
Home and Community Environment Program	108,501	-
Policy and Administration Program	19,192	-
Total disbursements	<u>218,713</u>	<u>7,581</u>
Excess (deficiency) of receipts over (under) disbursements	13,487	541
Balance beginning of year	<u>82,793</u>	<u>2,030</u>
Balance end of year	<u>\$ 96,280</u>	<u>2,571</u>

See notes to financial statements.

Net	Amended Budget	Variance Favorable (Unfavorable)	Net as % of Amended Budget
51,325	50,657	668	101%
5,916	6,176	(260)	96%
1,997	1,250	747	160%
1,380	3,000	(1,620)	46%
45,116	55,645	(10,529)	81%
72,511	66,550	5,961	109%
45,833	30,000	15,833	153%
<u>224,078</u>	<u>213,278</u>	<u>10,800</u>	<u>105%</u>
34,611	35,720	1,109	97%
48,828	55,050	6,222	89%
108,501	116,325	7,824	93%
19,192	22,700	3,508	85%
<u>211,132</u>	<u>229,795</u>	<u>18,663</u>	<u>92%</u>
12,946	(16,517)		
<u>80,763</u>	<u>172,619</u>		
<u><u>93,709</u></u>	<u><u>156,102</u></u>		

City of Elkhart
Statement of Indebtedness
Year ended June 30, 2002

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds: Street improvement	Nov 1, 1996	4.60-6.00%	\$ 140,000
Street sealing - 28E agreement	Jul 16, 1998	-	\$ 51,809

See notes to financial statements.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
125,000	5,000	120,000	7,040
17,270	8,635	8,635	-

City of Elkhart

Notes to Financial Statements

June 30, 2002

(1) Summary of Significant Accounting Policies

The City of Elkhart is a political subdivision of the State of Iowa located in Polk County. It was first incorporated in 1904 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 Elkhart 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.

These financial statements present the City of Elkhart (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The following component unit is an entity which is legally separate from the City, but is so intertwined with the City that it is, in substance, part of the City.

The Elkhart Volunteer Firefighters Association has been incorporated under Chapter 504A of the Code of Iowa to receive donations for the benefit of the Elkhart Fire Department. The donations are used to purchase items which are not included in the City's budget. The financial transactions of the entity have been included as a Special Revenue Fund of the City.

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 long-term debt.

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.

C. Basis of Accounting

The City of Elkhart 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, except blended component units. 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.

(3) Bonds Payable

Annual debt service requirements to maturity for the general obligation bonds are as follows:

Year Ending June 30,	General Obligation Bonds		
	Interest Rate	Principal	Interest
2003	5.10%	\$ 5,000	6,790
2004	5.15	5,000	6,535
2005	5.25	5,000	6,278
2006	5.30	5,000	6,015
2007	5.40	10,000	5,750
2008	5.50	10,000	5,210
2009	5.60	10,000	4,660
2010	5.70	10,000	4,100
2011	5.75	10,000	3,530
2012	5.80	10,000	2,955
2013	5.85	10,000	2,375
2014	5.90	10,000	1,790
2015	6.00	10,000	1,200
2016	6.00	10,000	600
Total		<u>\$ 120,000</u>	<u>57,788</u>

(4) Street Sealing 28E Agreement

The City entered into a 28E agreement with Polk County on July 16, 1998 to seal various streets within the City limits. The work was done by the County with the City's share of \$51,809 to be paid to Polk County in six annual interest free installments of \$8,635 through June 30, 2004. The balance owed on the agreement at June 30, 2002 was \$8,635.

(5) 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 \$1,513, equal to the required contribution for the year.

(6) Related Party Transactions

The City had business transactions totaling \$24,330 between the City and City officials during the year ended June 30, 2002.

(7) 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 with over 400 members from 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 \$9,266.

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 physical 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.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Deficit Balance

The Enterprise, Water Fund had a deficit balance of \$38,715 at June 30, 2002. The deficit balance was a result of project costs incurred for the construction of a new water plant in a prior year. The City has increased water rates as a means of eliminating the deficit balance.

Supplemental Information

City of Elkhart

City of Elkhart
 Schedule of Cash Transactions
 General Fund
 Year ended June 30, 2002

Receipts:		
Property tax	\$	51,325
Other city tax:		
Mobile home tax		2,132
Utility tax replacement excise tax		3,232
Cable franchise tax		552
		<u>5,916</u>
Licenses and permits:		
Building		1,877
Animal		120
		<u>1,997</u>
Use of money and property:		
Interest on investments		<u>1,380</u>
Intergovernmental:		
State allocation		4,007
Fire contracts		12,114
		<u>16,121</u>
Charges for service:		
Recycling		2,514
Community center		1,720
Cemetery		1,100
Miscellaneous		47
		<u>5,381</u>
Miscellaneous:		
Donations and contributions		30,010
Refunds and reimbursements		808
Miscellaneous		96
		<u>30,914</u>
Total receipts		<u>113,034</u>
Disbursements:		
Community Protection Program:		
Police:		
Contractual services		<u>4,964</u>
Fire:		
Personal services		
Contractual services		14,489
Commodities		1,648
Capital outlay		7,293
		<u>23,430</u>

Schedule 1

City of Elkhart

Schedule of Cash Transactions

General Fund

Year ended June 30, 2002

Disbursements (continued):	
Street lights:	
Contractual services	4,780
	<hr/>
Inspections:	
Contractual services	1,437
	<hr/>
	34,611
	<hr/>
Human Development Program:	
Mosquito control:	
Personal services	253
Contractual services	72
Commodities	654
	<hr/>
	979
	<hr/>
Library:	
Contractual services	750
	<hr/>
Park:	
Personal services	1,017
Contractual services	4,581
Commodities	5,534
Capital outlay	25,807
	<hr/>
	36,939
	<hr/>
Community center:	
Personal services	121
Contractual services	3,485
Commodities	143
Capital outlay	2,731
	<hr/>
	6,480
	<hr/>
	45,148
	<hr/>
Home and Community Environment Program:	
Recycling:	
Contractual services	2,263
	<hr/>
Cemetery:	
Personal services	388
Contractual services	2,818
Commodities	159
Capital outlay	2,033
	<hr/>
	5,398
	<hr/>

City of Elkhart
 Schedule of Cash Transactions
 General Fund
 Year ended June 30, 2002

Disbursements (continued):

Home and Community Environment Program:

Storm sewers:

Personal services	54
Contractual services	294
Commodities	4,230
Capital outlay	12,000
	16,578
	24,239

Policy and Administration Program:

Mayor/city council:

Personal services	2,934
Contractual services	909
	3,843

City clerk:

Personal services	5,003
Contractual services	221
	5,224

Elections:

Contractual services	776
	776

City hall:

Personal services	28
Contractual services	3,746
Commodities	576
Capital outlay	650
	5,000

Legal and professional:

Contractual services	2,953
	2,953

Miscellaneous:

Personal services	18
Contractual services	1,378
	1,396
	19,192

Total disbursements

123,190

Deficiency of receipts under disbursements

(10,156)

Balance beginning of year

97,457

Balance end of year

\$ 87,301

See accompanying independent auditor's report.

City of Elkhart

Combining Schedule of Cash Transactions

Special Revenue Funds

Year ended June 30, 2002

	Road Use Tax	Elkhart Volunteer Firefighters Association	Elkhart Memorial Park Board
Receipts:			
Use of money and property:			
Interest on investments	\$ -	47	-
Intergovernmental:			
Road use tax allocation	28,995	-	-
Miscellaneous:			
Donations and fundraisers	-	7,813	455
Miscellaneous	-	262	503
Total receipts	28,995	8,122	958
Disbursements:			
Community Protection Program:			
Contractual services	-	706	-
Commodities	-	4,574	-
Capital outlay	-	2,301	-
	-	7,581	-
Human Development Program:			
Contractual services	-	-	420
Commodities	-	-	169
	-	-	589
Home and Community Environment Program:			
Personal services	1,217	-	-
Contractual services	14,196	-	-
Commodities	1,988	-	-
Capital outlay	8,780	-	-
	26,181	-	-
Total disbursements	26,181	7,581	589
Excess of receipts over disbursements	2,814	541	369
Balance beginning of year	7,766	2,030	2,074
Balance end of year	\$ 10,580	2,571	2,443

See accompanying independent auditor's report.

Elkhart Cemetery Association	Elkhart Centennial Committee	Total
-	-	47
-	-	28,995
1,041	8,216	17,525
-	-	765
1,041	8,216	18,290
1,041	8,216	47,332
-	-	706
-	-	4,574
-	-	2,301
-	-	7,581
-	1,629	2,049
-	1,462	1,631
-	3,091	3,680
-	-	1,217
284	-	14,480
61	-	2,049
-	-	8,780
345	-	26,526
345	3,091	37,787
696	5,125	9,545
902	-	12,772
1,598	5,125	22,317

Schedule 3

City of Elkhart
Schedule of Cash Transactions
Debt Service Fund
Year ended June 30, 2002

Receipts:	
None	\$ -
<hr/>	
Disbursements:	
Home and Community Environment Program:	
Debt service:	
Principal redemption	5,000
Interest payments	7,040
Other	300
Total disbursements	<u>12,340</u>
Deficiency of receipts under disbursements	(12,340)
Balance beginning of year	<u>12,340</u>
Balance end of year	<u><u>\$ -</u></u>

See accompanying independent auditor's report.

City of Elkhart
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2002

	Water	Sewer	Total
Receipts:			
Charges for service:			
Sale of water	\$ 46,591	-	46,591
Sewer rental fees	-	20,539	20,539
	<u>46,591</u>	<u>20,539</u>	<u>67,130</u>
Miscellaneous:			
Penalties	1,737	477	2,214
Customer deposits	1,350	-	1,350
Connection fees	890	150	1,040
Miscellaneous	100	-	100
	<u>4,077</u>	<u>627</u>	<u>4,704</u>
Total receipts	<u>50,668</u>	<u>21,166</u>	<u>71,834</u>
Disbursements:			
Home and Community Environment Program:			
Operations:			
Personal services	11,946	10,381	22,327
Contractual services	9,997	2,792	12,789
Commodities	5,422	868	6,290
Capital outlay	856	3,134	3,990
Total disbursements	<u>28,221</u>	<u>17,175</u>	<u>45,396</u>
Excess of receipts over disbursements	22,447	3,991	26,438
Balance beginning of year	<u>(61,162)</u>	<u>21,386</u>	<u>(39,776)</u>
Balance end of year	<u>\$ (38,715)</u>	<u>25,377</u>	<u>(13,338)</u>

See accompanying independent auditor's report.

City of Elkhart



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

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

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 Elkhart, Iowa, as of and for the year ended June 30, 2002, and have issued our report thereon dated February 26, 2003. 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 Elkhart's 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 Elkhart's 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. Prior audit statutory comments have been resolved except for item (7).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Elkhart's 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 Elkhart'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 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, of the reportable conditions described above, we believe items (A), (B) and (C) are material weaknesses. Prior audit reportable conditions have been resolved except for items (A), (B) and (I).

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 Elkhart and other parties to whom the City of Elkhart 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 Elkhart during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

David A. Vaudt, CPA
Auditor of State

Warren G. Jenkins, CPA
Chief Deputy Auditor of State

February 26, 2003

City of Elkhart
Schedule of Findings
Year ended June 30, 2002

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

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. One person had control over each of the following areas for the City:
- (1) Accounting system – performance of all general accounting functions and custody of assets.
 - (2) Long-term debt – recording and reconciling.
 - (3) Receipts – opening mail, collecting, depositing, posting and reconciling.
 - (4) Utility receipts – billing, collecting, depositing, posting and reconciling.
 - (5) Disbursements – processing, recording and reconciling.
 - (6) Payroll – preparing, recording and distributing.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. Officials should be utilized to provide additional control through review of financial transactions and reconciliations. Such reviews should be performed by independent persons to the extent possible, and should be evidenced by initials or signature of the reviewer and the date of review.

Response – The Clerk will provide the Council and Mayor with a monthly Clerk's report which will include all financials. This report will be signed by the Mayor and Councilman who oversees audit/City Hall.

Conclusion – Response acknowledged. Additional control could be achieved through the Council's review of financial transactions and monthly reconciliations.

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

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

Response – The Clerk will provide a monthly utility report which will include billings, collections, and delinquencies. The Council will decide how to handle delinquencies. The report will be signed by the Mayor and Councilman who oversees water/sewer.

Conclusion – Response accepted.

City of Elkhart

Schedule of Findings

Year ended June 30, 2002

- (C) Bank Reconciliations – Monthly reconciliations of the Clerk’s ledger balances to the bank accounts were not prepared. At June 30, 2002, an unexplained variance of \$3,827 existed between bank and ledger balances. In addition, the computerized check register included several checks with duplicate or invalid check numbers.

Recommendation – To improve financial accountability and control, the ledger balances should be reconciled monthly to the bank balances. Any variances should be investigated and resolved in a timely manner. A listing of outstanding checks should be prepared each month and retained. The check register produced by the computer system should be monitored for duplicate or invalid check numbers and variances should be investigated and resolved.

Response – The Clerk will perform a monthly bank reconciliation and perform better monitoring of the check register.

Conclusion – Response accepted.

- (D) Electronic Data Processing Systems –

(1) The City does not have written policies or procedures for:

- personal use of computer and software.
- ensuring that only software licensed to the City is installed on computers.

(2) The City does not perform daily, weekly or monthly backups of computer data and programs. Tapes maintained for the quarterly backup are not stored at an off site location.

(3) The City does not use an anti-virus program on the computer to protect the integrity of the financial data.

(4) The City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies and procedures addressing the above items in order to improve the City’s control over computer based systems. The City should perform daily, weekly or monthly backups and the backup tapes should be stored in an off site location in a fire proof vault or safe. The City should use an anti-virus program and a written disaster recovery plan should be developed.

Response – The City will develop a policies and procedures manual for data processing and the set-up for scheduled back-ups to be completed by the Clerk. The City will look into potential off-site storage possibilities.

Conclusion – Response acknowledged. The Council should also consider the use of an anti-virus program on the City’s computer and development of a written disaster recovery plan.

- (E) Accounting Policies and Procedures Manual – We encourage the development of an office procedures and standardized accounting manual for the City. This manual should provide the following benefits:

(1) Help achieve uniformity in accounting and in the application of policies and procedures.

City of Elkhart

Schedule of Findings

Year ended June 30, 2002

(2) Save supervisory time by recording decisions so that they will not have to be made each time the same or similar situation arises.

(3) Aid in training additional or replacement personnel.

Recommendation – An accounting policies and procedures manual should be developed.

Response – The Clerk will develop an operational procedures manual which will detail policies and procedures of the job duties needed to perform the work of the Clerk.

Conclusion – Response accepted.

(F) Compensated Absences – The City does not have a written policy for compensated absences and does not track vacation and sick leave balances.

Recommendation – The City should develop a policy regarding compensated absences and track employee balances for sick leave and vacation.

Response – A yearly record will be kept for each employee who receives sick leave and/or vacation time. This function will be performed and kept up to date by the Mayor.

Conclusion – Response acknowledged. The City should also develop a written policy for compensated absences.

(G) Utility Charges – The ordinance establishing the amount to be paid for recycling could not be located. Also, penalties for late utility payments are not consistently applied in accordance with the applicable ordinances.

Recommendation – The City should maintain all ordinances approved by the Council and apply policies detailed in the ordinances in a consistent manner.

Response – The Council will adopt an ordinance establishing a recycling charge. All utility penalties will be applied consistently in the future.

Conclusion – Response accepted.

(H) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – The bank has been contacted and the City has requested that we have both sides of the cancelled checks retained in an electronic format.

Conclusion – Response accepted.

City of Elkhart

Schedule of Findings

Year ended June 30, 2002

- (I) Payroll – Timesheets for City employees do not indicate evidence of independent review.

Recommendation – Employee timesheets should be reviewed by an independent person and the review should be evidenced by initials or signature of the reviewer.

Response – Timesheets for the City Clerk will be reviewed and initialed by the Mayor and the Councilman who oversees audit/City Hall. All other employee timesheets will be reviewed and initialed by the Mayor.

Conclusion – Response accepted.

- (J) Separately Maintained Records – The bookkeeping and custody of the Elkhart Memorial Park Board, Cemetery Association and Centennial Committee funds are under the control of individuals in a location separate from the Clerk’s office. These transactions and the resulting balances are not reflected in the City’s financial reports or annual budget.

Chapter 384.20 of the Code of Iowa states in part that “a City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any City purpose.”

Recommendation – For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk’s records.

Response – The City Clerk will include the above mentioned groups into our annual financial report.

Conclusion – Response acknowledged. This information should also be included in the City’s annual budget.

- (K) Elkhart Volunteer Firefighters Association – The Association does not maintain a check register or perform a monthly reconciliation of bank balance to accounting records. In addition, monthly reports provided by the Association contained several errors.

Recommendation – The Association should maintain a check register and perform monthly reconciliations of the accounting and bank records. In addition, steps should be taken to ensure that monthly financial reports are accurate.

Response – We started a check register so there will not be any errors.

Conclusion – Response acknowledged. The Association should also ensure that monthly reconciliations of the accounting and bank records are performed and that monthly financial reports are accurate.

City of Elkhart

Schedule of Findings

Year ended June 30, 2002

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming the official depository has been approved by the City. However, the resolution has not been updated to reflect a name change in the depository. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2002.

Recommendation – The City should update and approve a new resolution to include the correct name of the depository institution.

Response – A resolution has been adopted to change the name of the City’s official depository to Community State Bank.

Conclusion – Response accepted.

- (2) Certified Budget – Disbursements during the year ended June 30, 2002 did not exceed the amounts budgeted.

- (3) Questionable Disbursements – No disbursements that 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 – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Lester Morris, Council Member, owner of Lester Morris Trenching	Labor and materials	\$24,330

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Council member may represent a conflict of interest since total transactions exceeded \$2,500 during the fiscal year and the transactions were not competitively bid. In addition, certain invoices submitted by Lester Morris Trenching did not contain sufficient detail to support amounts charged for labor.

Recommendation – The City should consult independent legal council to determine the disposition of the potential conflict of interest. In addition, the City should ensure that vendor invoices are prepared in sufficient detail to support all charges to the City.

Response – The City will require that any amount of work in excess of \$2,500, to be done by a Council member, be let out for a bid.

Conclusion – Response acknowledged. The City should also consult legal counsel on this matter and require vendor invoices to be prepared in sufficient detail to support charges.

City of Elkhart

Schedule of Findings

Year ended June 30, 2002

- (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 – Except as follows, no transactions were found that we believe should have been approved in the Council minutes but were not.

The vote of each Council Member was not always listed by name.

Also, the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – Minutes should indicate the vote of each member present in accordance with Chapter 21.3 of the Code of Iowa and annual salaries should be published as required.

Response – All individual votes will be listed on any split vote. The City will publish all annual gross salaries on a calendar year basis.

Conclusion – Response accepted.

- (8) Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (9) Annual Financial Report – The 2002 Annual Financial Report submitted to the state does not accurately reflect the actual activity or budget information recorded in the City's ledger cards. As a result, the ending balances reported on the 2002 Annual Financial Report are understated by \$41,680.

Recommendation – The Annual Financial Report should accurately reflect the actual activity and budget information recorded in the City's ledger cards and the City's budget. The fiscal year 2003 Annual Financial Report should include accurate beginning balances and the ending balances should reconcile to the City's ledger balances.

Response – The Council will pass a motion for a budget revision to reflect accurate fund balances and the Clerk will reconcile ending balances.

Conclusion – Response acknowledged. Fund balances on the fiscal year 2003 Annual Financial Report should also reconcile to the City's ledger balances.

- (10) Financial Condition – The Enterprise, Water Fund had a deficit balance at June 30, 2002 of \$38,715. The deficit is a result of the construction of a new water plant in a prior year.

Recommendation – The City should investigate alternatives to eliminate the deficit in the Enterprise, Water Fund in order to return the account to a sound financial condition.

City of Elkhart

Schedule of Findings

Year ended June 30, 2002

Response – The Council passed ordinance 2001-2 to increase water rates in order to eliminate the deficit in the Water Fund. The Council anticipates that the deficit will be eliminated by the end of fiscal year 2004.

Conclusion – Response accepted.

City of Elkhart

Staff

This audit was performed by:

Cynthia L. Weber, CPA, Manager
Lesley R. Geary, CPA, Senior Auditor
Mary Crystal A. Berg, CPA, Staff Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State