



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

June 1, 2009

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$1,390,936 for the year ended June 30, 2008. The receipts included \$185,908 in property tax, \$261,183 from charges for service, \$94,336 from operating grants, contributions and restricted interest, \$635,207 from capital grants, contributions and restricted interest, \$120,308 from local option sales tax and \$93,994 from other general receipts.

Disbursements for the year totaled \$2,249,807, and included \$1,499,965 for capital projects, \$194,351 for public works and \$138,720 for debt service. Also, disbursements for business type activities totaled \$245,617.

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

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CITY OF ELK RUN HEIGHTS

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

JUNE 30, 2008

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City of Elk Run Heights

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2008)		
William R. Henninger, II	Mayor	Jan 2008
Dennis Bass	Mayor Pro tem	Jan 2008
Rick Heth	Council Member	Jan 2008
Robert Hertges	Council Member	Jan 2008
Ron Ratchford	Council Member	Jan 2008
Scott Wroe	Council Member	Jan 2008
Kristi Lundy	Clerk	Indefinite
Bonnie Cross	Deputy Clerk	Indefinite
Carter J. Stevens	Attorney	Feb 2008
(After January 2008)		
William R. Henninger, II	Mayor	Jan 2010
Dennis Bass	Mayor Pro tem	Jan 2010
Rick Heth	Council Member	Jan 2010
Ron Ratchford	Council Member	Jan 2010
Scott Wroe	Council Member	Jan 2010
Gary Wurtz	Council Member	Jan 2010
Kristi Lundy	City Clerk	Indefinite
Bonnie Cross	Deputy Clerk	Indefinite
Heather Prendergast	Attorney	Indefinite

City of Elk Run Heights



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Elk Run Heights, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Elk Run Heights' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2007.

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, 2007, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Elk Run Heights as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 27, 2009 on our consideration of the City of Elk Run Heights' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elk Run Heights' basic financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2007, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 27, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Elk Run Heights provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

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

2008 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased approximately \$893,000, due primarily to an increase in capital projects disbursements.
- The cash basis net assets of the City's business type activities increased approximately \$34,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's debt. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and solid waste funds, with water and sewer funds considered to be major funds of the City.

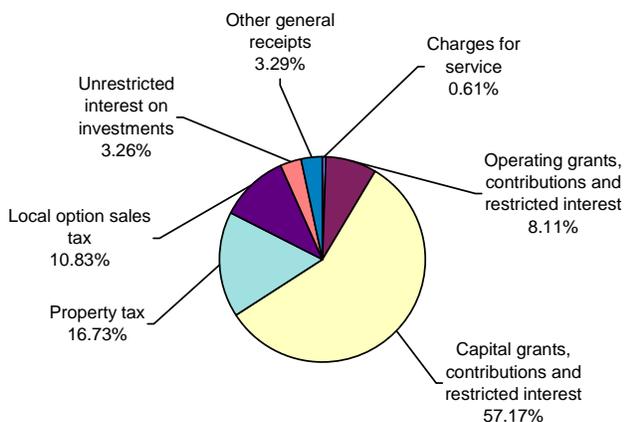
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

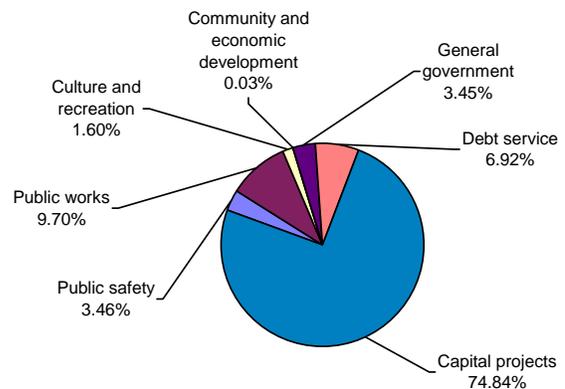
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$1,250,238 to \$357,193. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2008
Receipts:	
Program receipts:	
Charges for service	\$ 6,793
Operating grants, contributions and restricted interest	90,128
Capital grants, contributions and restricted interest	635,207
General receipts:	
Property tax	185,908
Local option sales tax	120,308
Unrestricted interest on investments	36,253
Other general receipts	36,548
Total receipts	<u>1,111,145</u>
Disbursements:	
Public safety	69,435
Public works	194,351
Culture and recreation	32,075
Community and economic development	533
General government	69,111
Debt service	138,720
Capital projects	1,499,965
Total disbursements	<u>2,004,190</u>
Decrease in cash basis net assets	(893,045)
Cash basis net assets beginning of year	<u>1,250,238</u>
Cash basis net assets end of year	<u>\$ 357,193</u>

Receipts by Source



Disbursements by Function



The cash basis net assets of the City's governmental activities decreased approximately \$893,000, due primarily to an increase in capital projects disbursements.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2008
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 78,189
Sewer	133,562
Solid waste	42,639
Operating grants, contributions and restricted interest	4,208
General receipts:	
Unrestricted interest on investments	21,193
Total receipts	<u>279,791</u>
Disbursements:	
Water	83,053
Sewer	114,524
Solid waste	48,040
Total disbursements	<u>245,617</u>
Increase in cash basis net assets	34,174
Cash basis net assets beginning of year	<u>539,970</u>
Cash basis net assets end of year	<u>\$ 574,144</u>

The cash basis net assets of the City's business type activities increased approximately \$34,000, due primarily to an increase in the Raymond Township assessment.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Elk Run Heights completed the year, its governmental funds reported a combined fund balance of \$357,193, a decrease of \$893,045 from last year's total of \$1,250,238. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$44,000 over the prior year to \$110,289. The change in fund balance was due primarily to a decrease in disbursements in the public safety and general government functions.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$64,485 from the prior year to \$57,890. The change in fund balance was due primarily to an increase in disbursements for Sutton Street lift station and McCoy Road repair projects.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$11,732 from the prior year to \$179,878. The decrease was a result of increased debt service requirements, which are transferred out of the Local Option Sales Tax Fund to the Debt Service Fund.
- The Capital Projects Fund cash balance decreased \$860,992 to \$4,782 during the fiscal year. The change in fund balance was due primarily to construction work performed on Dubuque Street.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$6,680 to \$296,325, due primarily to interest receipts from interest earned on certificates of deposit held for the water utility.
- The Sewer Fund cash balance increased \$28,641 to \$261,485, due primarily to an increase in the Raymond Township assessment.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 13, 2008 and resulted in an increase in disbursements in the capital projects function. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$99,424 more than budgeted. This was primarily due to the City receiving more interest on investments and charges for service than budgeted.

With the amendment, total disbursements were \$58,984, or 3%, less than the amended budget. However, the actual disbursements for the culture and recreation function were \$1,781 more than the amended budget.

DEBT ADMINISTRATION

At June 30, 2008, the City had \$495,000 in general obligation bonds outstanding.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$495,000 is significantly below its constitutional debt limit of approximately \$2,886,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2009 budget, tax rates and fees charged for various City activities. The City's fiscal year 2009 assessed value has increased \$1,776,883 from the fiscal year 2008 level.

The fiscal year 2009 budget contains total receipts of \$712,935 and disbursements of \$662,347. This budget is lower than the original fiscal year 2008 budget which contained total receipts of \$1,291,512 and disbursements of \$2,008,791. The changes in the fiscal year 2009 budget are due to the exclusion of the Dubuque Road project, which was completed in fiscal year 2008.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$50,588 by the close of 2009.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kristi Lundy, City Clerk, 504 Lafayette Road, Elk Run Heights, Iowa 51521.

City of Elk Run Heights

Basic Financial Statements

City of Elk Run Heights

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2008

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 69,435	2,963	-	-
Public works	194,351	-	90,128	635,207
Culture and recreation	32,075	2,890	-	-
Community and economic development	533	-	-	-
General government	69,111	940	-	-
Debt service	138,720	-	-	-
Capital projects	1,499,965	-	-	-
Total governmental activities	2,004,190	6,793	90,128	635,207
Business type activities:				
Water	83,053	78,189	-	-
Sewer	114,524	133,562	-	-
Solid waste	48,040	42,639	4,208	-
Total business type activities	245,617	254,390	4,208	-
Total	\$ 2,249,807	261,183	94,336	635,207

General Receipts:

Property and other city tax levied for general purposes
 Local option sales tax
 Unrestricted interest on investments
 Black Hawk County landfill
 Cablevision franchise fees
 Miscellaneous

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Streets
 Local option sales tax
 Capital projects
 Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(66,472)	-	(66,472)
530,984	-	530,984
(29,185)	-	(29,185)
(533)	-	(533)
(68,171)	-	(68,171)
(138,720)	-	(138,720)
(1,499,965)	-	(1,499,965)
(1,272,062)	-	(1,272,062)
-	(4,864)	(4,864)
-	19,038	19,038
-	(1,193)	(1,193)
-	12,981	12,981
(1,272,062)	12,981	(1,259,081)
185,908	-	185,908
120,308	-	120,308
36,253	21,193	57,446
16,432	-	16,432
13,105	-	13,105
7,011	-	7,011
379,017	21,193	400,210
(893,045)	34,174	(858,871)
1,250,238	539,970	1,790,208
\$ 357,193	574,144	931,337
\$ 57,890	-	57,890
179,878	-	179,878
4,782	-	4,782
4,354	-	4,354
110,289	574,144	684,433
\$ 357,193	574,144	931,337

City of Elk Run Heights

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

As of and for the year ended June 30, 2008

	Special Revenue		
	General	Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 185,908	-	-
Other city tax		-	120,308
Licenses and permits	16,935	-	-
Use of money and property	15,375	-	6,680
Intergovernmental	29,591	90,128	-
Miscellaneous	7,083	-	-
Total receipts	<u>254,892</u>	<u>90,128</u>	<u>126,988</u>
Disbursements:			
Operating:			
Public safety	69,435	-	-
Public works	39,738	154,613	-
Culture and recreation	32,075	-	-
Community and economic development	533	-	-
General government	69,111	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>210,892</u>	<u>154,613</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>44,000</u>	<u>(64,485)</u>	<u>126,988</u>
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	-	-	(138,720)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(138,720)</u>
Net change in cash balances	44,000	(64,485)	(11,732)
Cash balances beginning of year	66,289	122,375	191,610
Cash balances end of year	<u>\$ 110,289</u>	<u>57,890</u>	<u>179,878</u>
Cash Basis Fund Balances			
Unreserved:			
General fund	\$ 110,289	-	-
Special revenue funds	-	57,890	179,878
Capital projects fund	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	<u>\$ 110,289</u>	<u>57,890</u>	<u>179,878</u>

See notes to financial statements.

Capital Projects	Nonmajor	Total
-	-	185,908
-	-	120,308
-	-	16,935
16,925	164	39,144
622,048	-	741,767
-	-	7,083
<u>638,973</u>	<u>164</u>	<u>1,111,145</u>
-	-	69,435
-	-	194,351
-	-	32,075
-	-	533
-	-	69,111
-	138,720	138,720
1,499,965	-	1,499,965
<u>1,499,965</u>	<u>138,720</u>	<u>2,004,190</u>
<u>(860,992)</u>	<u>(138,556)</u>	<u>(893,045)</u>
-	138,720	138,720
-	-	(138,720)
<u>-</u>	<u>138,720</u>	<u>-</u>
<u>(860,992)</u>	<u>164</u>	<u>(893,045)</u>
<u>865,774</u>	<u>4,190</u>	<u>1,250,238</u>
<u>4,782</u>	<u>4,354</u>	<u>357,193</u>
-	-	110,289
-	-	237,768
4,782	-	4,782
-	4,354	4,354
<u>4,782</u>	<u>4,354</u>	<u>357,193</u>

City of Elk Run Heights

City of Elk Run Heights

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

As of and for the year ended June 30, 2008

	Enterprise			Total
	Water	Sewer	Nonmajor Solid Waste	
Operating receipts:				
Charges for service	\$ 73,771	131,942	41,748	247,461
Miscellaneous	4,418	1,620	891	6,929
Total operating receipts	78,189	133,562	42,639	254,390
Operating disbursements:				
Business type activities	83,053	114,524	48,040	245,617
Excess (deficiency) of operating receipts over (under) operating disbursements	(4,864)	19,038	(5,401)	8,773
Non-operating receipts:				
Interest on investments	11,544	9,603	46	21,193
Recycling grant	-	-	4,208	4,208
Net non-operating receipts	11,544	9,603	4,254	25,401
Net change in cash balances	6,680	28,641	(1,147)	34,174
Cash balances beginning of year	289,645	232,844	17,481	539,970
Cash balances end of year	\$ 296,325	261,485	16,334	574,144
Cash Basis Fund Balances				
Unreserved	\$ 296,325	261,485	16,334	574,144

See notes to financial statements.

City of Elk Run Heights

Notes to Financial Statements

June 30, 2008

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for receipts from the tax authorized by referendum and used for public safety and property tax relief.

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

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the culture and recreation function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Notes Payable

Annual debt service requirements to maturity for general obligation notes is as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 120,000	19,065	139,065
2010	120,000	14,505	134,505
2011	125,000	9,945	134,945
2012	130,000	5,070	135,070
Total	\$ 495,000	48,585	543,585

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2008 was \$7,216, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time payments payable to employees at June 30, 2008, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 2,300
Compensatory time	7,300
Total	\$ 9,600

This liability has been computed based on rates of pay in effect at June 30, 2008.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue: Local Option Sales Tax	<u>\$ 138,720</u>

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

(7) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 563 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 200 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 contributions to the Pool for the year ended June 30, 2008 were \$7,273.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2008, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

(8) Construction Commitments

The City has entered into contracts for road replacement at a total cost of \$1,381,437. At June 30, 2008, \$1,365,279 had been paid on the contracts. Additional payments will be made as work on the project progresses. At June 30, 2008, the unpaid contract amounts totaled \$16,158.

City of Elk Run Heights

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 185,908	-	185,908
Other city tax	120,308	-	120,308
Licenses and permits	16,935	-	16,935
Use of money and property	39,144	21,193	60,337
Intergovernmental	741,767	4,208	745,975
Charges for service	-	247,461	247,461
Miscellaneous	7,083	6,929	14,012
Total receipts	<u>1,111,145</u>	<u>279,791</u>	<u>1,390,936</u>
Disbursements:			
Public safety	69,435	-	69,435
Public works	194,351	-	194,351
Culture and recreation	32,075	-	32,075
Community and economic development	533	-	533
General government	69,111	-	69,111
Debt service	138,720	-	138,720
Capital projects	1,499,965	-	1,499,965
Business type activities	-	245,617	245,617
Total disbursements	<u>2,004,190</u>	<u>245,617</u>	<u>2,249,807</u>
Excess (deficiency) of receipts over (under) disbursements	(893,045)	34,174	(858,871)
Balances beginning of year	<u>1,250,238</u>	<u>539,970</u>	<u>1,790,208</u>
Balances end of year	<u>\$ 357,193</u>	<u>574,144</u>	<u>931,337</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total Variance
183,017	183,017	2,891
112,083	112,083	8,225
4,750	4,750	12,185
18,340	18,340	41,997
756,682	756,682	(10,707)
216,440	216,440	31,021
200	200	13,812
<u>1,291,512</u>	<u>1,291,512</u>	<u>99,424</u>
73,144	73,144	3,709
230,928	230,928	36,577
30,294	30,294	(1,781)
3,104	3,104	2,571
80,746	80,746	11,635
138,720	138,720	-
1,200,000	1,500,000	35
251,855	251,855	6,238
<u>2,008,791</u>	<u>2,308,791</u>	<u>58,984</u>
(717,279)	(1,017,279)	158,408
<u>1,763,856</u>	<u>1,763,856</u>	<u>26,352</u>
<u>1,046,577</u>	<u>746,577</u>	<u>184,760</u>

City of Elk Run Heights

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$300,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the culture and recreation function.

Other Supplementary Information

City of Elk Run Heights

City of Elk Run Heights

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

As of and for the year ended June 30, 2008

	Debt Service	<u>Permanent Kid City</u>	Total
Receipts:			
Use of money and property	\$ -	164	164
Disbursements:			
Debt service	138,720	-	138,720
Excess (deficiency) of receipts over (under) disbursements	(138,720)	164	(138,556)
Other financing sources:			
Operating transfers in	138,720	-	138,720
Net change in cash balances	-	164	164
Cash balances beginning of year	-	4,190	4,190
Cash balances end of year	\$ -	4,354	4,354
Cash Basis Fund Balances			
Unreserved:			
Permanent fund	\$ -	4,354	4,354

See accompanying independent auditor's report.

City of Elk Run Heights
Schedule of Indebtedness
Year ended June 30, 2008

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

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
610,000	-	115,000	495,000	23,320

Schedule 3

City of Elk Run Heights

Note Maturities

June 30, 2008

Year Ending June 30,	General Obligation Notes	
	Interest Rates	Amount
2009	3.80%	\$ 120,000
2010	3.80	120,000
2011	3.90	125,000
2012	3.90	<u>130,000</u>
Total		<u>\$ 495,000</u>

See accompanying independent auditor's report.

City of Elk Run Heights
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2008

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	2-06-STPU-027	\$ 640,000
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		<u>6,549</u>
Total			<u><u>\$ 646,549</u></u>

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

See accompanying independent auditor’s report.

City of Elk Run Heights



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Elk Run Heights, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated April 27, 2009. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2007. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-08 and II-B-08 are material weaknesses.

Compliance and Other Matters

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

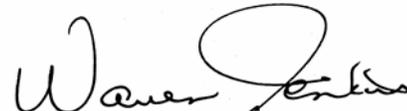
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Elk Run Heights' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Elk Run Heights' responses and, accordingly, we express no opinion on them.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Elk Run Heights during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 27, 2009

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

City of Elk Run Heights



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

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Elk Run Heights, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2008. The City of Elk Run Heights' major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Elk Run Heights' management. Our responsibility is to express an opinion on the City of Elk Run Heights' compliance based on our audit.

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

In our opinion, the City of Elk Run Heights complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City of Elk Run Heights is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Elk Run Heights' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Elk Run Heights' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

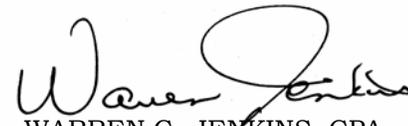
A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-08 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We do not consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

The City of Elk Run Heights' response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the City's response, we did not audit the City of Elk Run Heights' response and, accordingly, we express no opinion on it.

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


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 27, 2009

City of Elk Run Heights
Schedule of Findings and Questioned Costs
Year ended June 30, 2008

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

- (a) Qualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over the major program was disclosed, which was not considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 20.205 – Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Elk Run Heights did not qualify as a low-risk auditee.

City of Elk Run Heights

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-08 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One of two individuals has control over each of the following areas:

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

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

Response – The City will review personnel and procedures and evaluate areas where internal controls can be strengthened.

Conclusion – Response accepted.

II-B-08 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 – We will prepare a reconciliation to be reviewed by the Mayor.

Conclusion – Response accepted.

City of Elk Run Heights
Schedule of Findings and Questioned Costs
Year ended June 30, 2008

II-C-08 Information Systems – The following weaknesses in the City's financial computer based systems were noted:

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

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

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

Response – We will prepare written policies.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Elk Run Heights
Schedule of Findings and Questioned Costs
Year ended June 30, 2008

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

CFDA Number: Highway Planning and Construction
Pass-through Agency Number: 2-06-STPU-027
U.S. Department of Transportation
Passed through the Iowa Department of Transportation

III-A-08 Monitoring – The City entered into an agreement with an engineering firm to provide engineering services in connection with the construction, administration and construction observation of the Dubuque Road reconstruction project. The agreement states the firm shall comply with all federal, state and local laws and ordinances applicable to the work. The engineering firm monitored compliance with the Davis-Bacon Act and the materials sampling and testing requirements. However, the City did not maintain documentation these compliance requirements, to be performed by the engineering firm, were completed in compliance with Office of Management and Budget (OMB) A-133 Compliance Supplement.

Although the City contracted with the engineering firm to ensure compliance with the Davis-Bacon Act and the materials sampling and testing requirements, the City retains responsibility to ensure these requirements were met. The City should receive and maintain documentation from the engineering firm to ensure applicable compliance requirements have been met.

Recommendation – The City should establish policies and procedures to receive and maintain supporting documentation to ensure compliance requirements have been met.

Response – The City will establish policies and procedures to receive and maintain supporting documentation to ensure compliance requirements have been met.

Conclusion – Response accepted.

City of Elk Run Heights

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-08 Certified Budget – Disbursements during the year ended June 30, 2008 exceeded the amount budgeted in the culture and recreation function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Disbursements during the year ended June 30, 2008 exceeded the amount budgeted in the capital projects function before the budget was amended on May 13, 2008.

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

Response – The City will work to forecast disbursements and make amendments if needed.

Conclusion – Response accepted.

IV-B-08 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-C-08 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-08 Business Transactions – No business transactions between the City and City officials or employees were noted

IV-E-08 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-08 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not. However, certain minutes were not signed as required by Chapter 380.7(3) of the Code of Iowa.

Recommendation – The minutes should be signed to authenticate the record.

Response – Minutes will be signed.

Conclusion – Response accepted.

IV-G-08 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

City of Elk Run Heights

Staff

This audit was performed by:

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Shawn R. Elsbury, Senior Auditor
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Deputy Auditor of State