



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

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NEWS RELEASE

FOR RELEASE

November 23, 2009

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$565,184 for the year ended June 30, 2009. The receipts included \$97,914 in property tax, \$156,668 from charges for service, \$109,305 from operating grants, contributions and restricted interest, \$195,108 from tax increment financing and \$6,189 from other general receipts.

Disbursements for the year totaled \$621,307, and included \$177,910 for capital projects, \$160,602 for debt service and \$57,171 for public safety. Also, disbursements for business type activities totaled \$114,064.

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/index.html>.

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CITY OF ELKHART
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2009

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City of Elkhart

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Andrew Cory	Mayor	Jan 2010
Michael Kappos	Council Member	Jan 2010
Mike McKinney	Council Member	Jan 2010
Doug Jones	Council Member	Jan 2012
Rob Richardson	Council Member	Jan 2012
Kevin Smith	Council Member	Jan 2012
Julie Unger	Clerk	Indefinite
Kara Sinnard	Attorney	Indefinite

City of Elkhart



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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 Elkhart, Iowa, as of and for the year ended June 30, 2009, 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 Elkhart's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008.

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, 2008, 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 Elkhart as of June 30, 2009, 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 November 2, 2009 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, 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 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elkhart's basic financial statements. Other supplementary information included in Schedules 1 through 3 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, 2008, 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

November 2, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Elkhart 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, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased 13.5%, or approximately \$81,800, due primarily to increases in disbursements for water tower and water main capital projects. The increase in disbursements was offset by tax increment financing collections in excess of debt payments.
- The cash basis net assets of the City's business type activities increased 25.6%, or approximately \$25,700, due primarily to water receipts exceeding disbursements. Water rates have remained unchanged since 2001.

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 indebtedness.

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, health and social services, culture and recreation, 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 and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects 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 two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

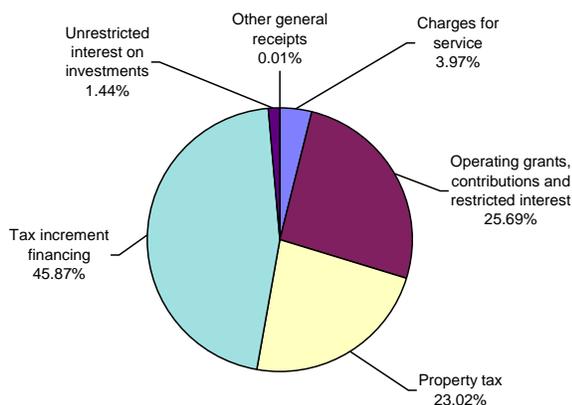
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

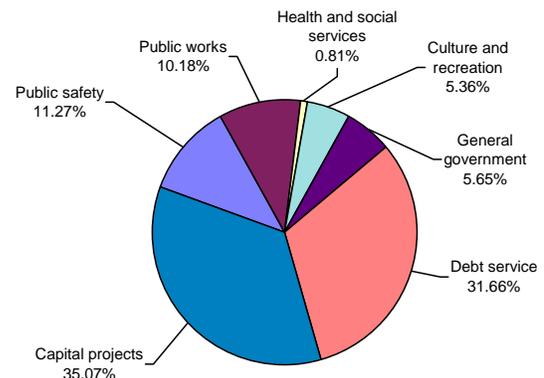
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$608,340 to \$526,499. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2009
Receipts:	
Program receipts:	
Charges for service	\$ 16,886
Operating grants, contributions and restricted interest	109,305
General receipts:	
Property tax	97,914
Tax increment financing	195,108
Unrestricted interest on investments	6,138
Other general receipts	51
Total receipts	<u>425,402</u>
Disbursements:	
Public safety	57,171
Public works	51,633
Health and social services	4,091
Culture and recreation	27,171
General government	28,665
Debt service	160,602
Capital projects	177,910
Total disbursements	<u>507,243</u>
Change in cash basis net assets	(81,841)
Cash basis net assets beginning of year	<u>608,340</u>
Cash basis net assets end of year	<u>\$ 526,499</u>

Receipts by Source



Disbursements by Function



The cash basis net assets of the City's governmental activities decreased 13.5%, or approximately \$81,800, due primarily to disbursements for the water tower and water main projects. This increase in disbursements was offset by tax increment financing receipts in excess of the amounts needed to repay current year debt requirements.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2009
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 84,237
Sewer	55,545
Total receipts	<u>139,782</u>
Disbursements:	
Water	49,924
Sewer	64,140
Total disbursements	<u>114,064</u>
Change in cash basis net assets	25,718
Cash basis net assets beginning of year	<u>100,283</u>
Cash basis net assets end of year	<u><u>\$ 126,001</u></u>

The cash basis net assets of the City's business type activities increased 26%, or approximately \$25,700, due primarily to receipts for water service exceeding current year disbursements. Water rates have not increased since 2001.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Elkhart completed the year, its governmental funds reported a combined fund balance of \$526,499, a decrease of 13.5% from last year's total of \$608,340. 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 \$22,130 over the prior year to \$244,457. The increase in fund balance was due primarily to increases in federal funds, contributions from surrounding townships for fire protection and interest on investments.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$67,594 over the prior year to \$203,039. The increase in fund balance was due primarily to the City collecting more in tax increment financing than was needed to pay the related debt for the current year. The surplus will be used to service debt in future years.
- The Debt Service Fund cash balance increased incrementally from the prior year to an ending cash balance of \$703.
- The Capital Projects Fund cash balance decreased \$177,910 from the prior year to \$23,464 as a result of work on the water tower and water main projects. The water tower project will be completed during FY10.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$34,313 to \$141,448, due primarily to receipts for water service exceeding current year disbursements.
- The Sewer Fund cash balance decreased \$8,595 to a deficit of \$15,447, due primarily to the City paying the remainder of the sewer revenue note during FY09. An increase in sewer rates approved in the Fall of 2007 is anticipated to alleviate the deficit in this fund in the coming years.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 26, 2009 and resulted in an increase in operating receipts and disbursements related to damage from the June 2008 flooding. It also increased disbursements for capital projects to more closely mirror the timing of project expenses.

The City's receipts were \$20,537 more than budgeted. This was primarily due to the City receiving more intergovernmental receipts than were budgeted.

Total disbursements were \$38,946 less than the amount budgeted. Actual disbursements for the culture and recreation function was \$2,971 more than the amount budgeted, due in part to flood damage at the City park.

DEBT ADMINISTRATION

At June 30, 2009, the City had \$800,500 in long-term debt outstanding compared to \$914,115 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2009	2008
General obligation notes	\$ 720,000	810,000
General obligation bonds	70,000	80,000
Sewer revenue notes	-	24,115
Loan agreement	10,500	-
Total	\$ 800,500	914,115

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 \$800,500 is below its constitutional debt limit of approximately \$1,327,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The fiscal year 2010 budget includes total receipts of \$527,096 and disbursements of \$415,967. This budget is higher than the fiscal year 2009 budget which contained total receipts of \$498,554 and disbursements of \$466,635. The fiscal year 2010 budget includes projected increases in disbursements for public safety for the purchase of land for a new fire station and public works for a street project. These projected increases are offset by a decrease in capital projects disbursements due to the substantial completion of the water main and water tower projects in FY09.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$111,000 by the close of 2010 to a balance of approximately \$637,000.

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 the City Clerk, 219 E. Main Street, Elkhart, Iowa 50073.

City of Elkhart

Basic Financial Statements

City of Elkhart

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2009

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 57,171	1,666	53,532
Public works	51,633	11,899	41,476
Health and social services	4,091	-	-
Culture and recreation	27,171	2,100	13,089
General government	28,665	1,221	1,208
Debt service	160,602	-	-
Capital projects	177,910	-	-
Total governmental activities	507,243	16,886	109,305
Business type activities:			
Water	49,924	84,237	-
Sewer	64,140	55,545	-
Total business type activities	114,064	139,782	-
Total	\$ 621,307	156,668	109,305

General Receipts:

- Property tax levied for:
 - General purposes
 - Tax increment financing
 - Debt service
- Unrestricted interest on investments
- Sale of assets

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:

- Urban renewal purposes
- Debt service
- Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(1,973)	-	(1,973)
1,742	-	1,742
(4,091)	-	(4,091)
(11,982)	-	(11,982)
(26,236)	-	(26,236)
(160,602)	-	(160,602)
(177,910)	-	(177,910)
(381,052)	-	(381,052)
-	34,313	34,313
-	(8,595)	(8,595)
-	25,718	25,718
(381,052)	25,718	(355,334)
64,796	-	64,796
195,108	-	195,108
33,118	-	33,118
6,138	-	6,138
51	-	51
299,211	-	299,211
(81,841)	25,718	(56,123)
608,340	100,283	708,623
\$ 526,499	126,001	652,500
\$ 203,039	-	203,039
703	-	703
78,300	-	78,300
244,457	126,001	370,458
\$ 526,499	126,001	652,500

City of Elkhart

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

As of and for the year ended June 30, 2009

	Special Revenue		
	General	Urban Renewal Tax Increment	Debt Service
Receipts:			
Property tax	\$ 60,256	-	31,787
Tax increment financing	-	195,108	-
Other city tax	4,540	-	1,331
Licenses and permits	2,452	-	-
Use of money and property	8,138	-	-
Intergovernmental	74,006	-	-
Charges for service	11,866	-	-
Miscellaneous	660	-	-
Total receipts	161,918	195,108	33,118
Disbursements:			
Operating:			
Public safety	47,627	-	-
Public works	36,200	-	-
Health and social services	4,091	-	-
Culture and recreation	23,256	-	-
General government	28,665	-	-
Debt service	-	-	160,602
Capital projects	-	-	-
Total disbursements	139,839	-	160,602
Excess (deficiency) of receipts over (under) disbursements	22,079	195,108	(127,484)
Other financing sources (uses):			
Sale of capital assets	51	-	-
Operating transfers in	-	-	127,514
Operating transfers out	-	(127,514)	-
Total other financing sources (uses)	51	(127,514)	127,514
Net change in cash balances	22,130	67,594	30
Cash balances beginning of year	222,327	135,445	673
Cash balances end of year	\$ 244,457	203,039	703
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	703
Unreserved:			
General fund	244,457	-	-
Special revenue funds	-	203,039	-
Capital projects fund	-	-	-
Total cash basis fund balances	\$ 244,457	203,039	703

See notes to financial statements.

Capital Projects	Nonmajor	Total
-	-	92,043
-	-	195,108
-	-	5,871
-	-	2,452
-	134	8,272
-	18,944	92,950
-	-	11,866
-	16,129	16,789
-	35,207	425,351
-	9,544	57,171
-	15,433	51,633
-	-	4,091
-	3,915	27,171
-	-	28,665
-	-	160,602
177,910	-	177,910
177,910	28,892	507,243
(177,910)	6,315	(81,892)
-	-	51
-	-	127,514
-	-	(127,514)
-	-	51
(177,910)	6,315	(81,841)
201,374	48,521	608,340
23,464	54,836	526,499
-	-	703
-	-	244,457
-	54,836	257,875
23,464	-	23,464
23,464	54,836	526,499

City of Elkhart

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

As of and for the year ended June 30, 2009

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 80,937	55,545	136,482
Miscellaneous	3,300	-	3,300
Total operating receipts	84,237	55,545	139,782
Operating disbursements:			
Business type activities	49,924	39,148	89,072
Excess of operating receipts over operating disbursements	34,313	16,397	50,710
Non-operating receipts (disbursements):			
Debt service	-	(24,992)	(24,992)
Excess (deficiency) of receipts over (under) disbursements	34,313	(8,595)	25,718
Cash balances beginning of year	107,135	(6,852)	100,283
Cash balances end of year	\$ 141,448	(15,447)	126,001
Cash Basis Fund Balances			
Unreserved	\$ 141,448	(15,447)	126,001

See notes to financial statements.

City of Elkhart

Notes to Financial Statements

June 30, 2009

(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, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of 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 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 Association have been included as a Special Revenue Fund of the city.

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: Polk County Assessor's Conference Board, Polk County Emergency Management Commission, Polk County Joint E911 Service Board and Metro Waste Authority.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

The Special Revenue, Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those 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 wastewater treatment and sanitary sewer system.

C. Measurement Focus and 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.

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, 2009, disbursements exceeded the amount budgeted in the culture and recreation function. In addition, disbursements exceeded the amounts budgeted in the public works and culture and recreation functions before the budget was amended.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Long-Term Debt

Bonds and Notes Payable

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

Year Ending June 30,	Principal	Interest	Total
2010	\$ 125,000	35,861	160,861
2011	130,000	30,203	160,203
2012	130,000	24,318	154,318
2013	135,000	18,428	153,428
2014	125,000	12,470	137,470
2015-2016	145,000	7,363	152,363
Total	\$ 790,000	128,643	918,643

28E Agreement

The City has entered into an agreement with Polk County under Chapter 28E of the Code of Iowa. The agreement provides for a zero percent (0%) interest loan in the amount of \$15,000 to assist with the removal and replacement of the existing outdoor warning siren system. The loan will be repaid in installments of \$1,500 each year, with the last payment to be made June 1, 2016. The amount outstanding at June 30, 2009 was \$10,500.

(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 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2009 was \$2,240, equal to the required contribution for the year.

(5) Risk Management

The City is a member of 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 577 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, 2009 were \$15,665.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$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 by The Travelers Insurance Company.

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, 2009, 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.

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.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue: Urban Renewal Tax Increment	<u>\$ 127,514</u>

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

(7) Construction Commitments

The City has entered into construction contracts totaling approximately \$663,000 for water main and water tower improvements. As of June 30, 2009, approximately \$633,000 had been paid on the contracts. The water main project was completed at a cost of approximately \$6,000 less than originally anticipated. The remaining \$24,000 will be paid as work progresses on the water tower improvements.

(8) Deficit Balances

The Enterprise, Sewer Fund had a deficit balance of \$15,447 at June 30, 2009. The City plans to eliminate the deficit through a rate increase which was effective November 2007.

Required Supplementary Information

City of Elkhart
 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, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 92,043	-	-
Tax increment financing	195,108	-	-
Other city tax	5,871	-	-
Licenses and permits	2,452	-	-
Use of money and property	8,272	-	134
Intergovernmental	92,950	-	-
Charges for service	11,866	136,482	-
Miscellaneous	16,789	3,300	15,108
Total receipts	425,351	139,782	15,242
Disbursements:			
Public safety	57,171	-	9,544
Public works	51,633	-	-
Health and social services	4,091	-	-
Culture and recreation	27,171	-	-
General government	28,665	-	-
Debt service	160,602	-	-
Capital projects	177,910	-	-
Business type activities	-	114,064	-
Total disbursements	507,243	114,064	9,544
Excess (deficiency) of receipts over (under) disbursements	(81,892)	25,718	5,698
Other financing sources, net	51	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(81,841)	25,718	5,698
Balances beginning of year	608,340	100,283	28,166
Balances end of year	\$ 526,499	126,001	33,864

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
92,043	93,235	93,235	(1,192)
195,108	196,618	196,618	(1,510)
5,871	6,701	5,701	170
2,452	5,000	1,300	1,152
8,138	3,500	7,400	738
92,950	50,500	80,500	12,450
148,348	143,000	144,100	4,248
4,981	-	500	4,481
549,891	498,554	529,354	20,537
47,627	51,291	55,891	8,264
51,633	27,750	54,650	3,017
4,091	2,000	4,500	409
27,171	13,000	24,200	(2,971)
28,665	27,000	31,500	2,835
160,602	160,602	160,602	-
177,910	80,000	201,374	23,464
114,064	104,992	117,992	3,928
611,763	466,635	650,709	38,946
(61,872)	31,919	(121,355)	59,483
51	-	-	51
(61,821)	31,919	(121,355)	59,534
680,457	338,682	696,058	(15,601)
618,636	370,601	574,703	43,933

City of Elkhart

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

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 except the blended component unit. 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 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 \$184,074. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amount budgeted in the culture and recreation function. In addition, disbursements exceeded the amounts budgeted in the public works and culture and recreation functions before the budget was amended.

Other Supplementary Information

City of Elkhart

City of Elkhart

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

As of and for the year ended June 30, 2009

	Special Revenue				Total
	Road Use Tax	Elkhart Volunteer Firefighters Association	Elkhart Memorial Park Board	Elkhart Cemetery Association	
Receipts:					
Use of money and property	-	134	-	-	134
Intergovernmental	15,433	-	3,511	-	18,944
Miscellaneous	-	15,108	853	168	16,129
Total receipts	15,433	15,242	4,364	168	35,207
Disbursements:					
Public safety	-	9,544	-	-	9,544
Public works	15,433	-	-	-	15,433
Culture and recreation	-	-	3,425	490	3,915
Total disbursements	15,433	9,544	3,425	490	28,892
Excess (deficiency) of receipts over (under) disbursements	-	5,698	939	(322)	6,315
Net change in cash balances	-	5,698	939	(322)	6,315
Cash balances beginning of year	16,957	28,166	1,543	1,855	48,521
Cash balances end of year	\$ 16,957	33,864	2,482	1,533	54,836
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	\$ 16,957	33,864	2,482	1,533	54,836

See accompanying independent auditor's report.

City of Elkhart
 Schedule of Indebtedness
 Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Street improvement	Nov 1, 1996	4.60 - 6.00%	\$ 140,000
Fire truck	May 28, 2003	4.25	140,000
Water improvements	Oct 23, 2007	4.45	735,000
Total			
Revenue notes:			
Sewer	Mar 10, 2004	4.75%	\$ 110,000
Loan agreement:			
Warning siren	Jul 5, 2006	0.00%	\$ 15,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
80,000	-	10,000	70,000	5,060
75,000	-	15,000	60,000	3,028
735,000	-	75,000	660,000	52,514
\$ 890,000	-	100,000	790,000	60,602
24,115	-	24,115	-	877
12,000	-	1,500	10,500	-

Schedule 3

City of Elkhart
Bond and Note Maturities
June 30, 2009

Year Ending June 30,	General Obligation Corporate Purpose Bonds Issued Nov 1, 1996		General Obligation Corporate Purpose Note Issued May 28, 2003		General Obligation Water Improvement Note Issued Oct 23, 2007		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2010	5.70%	\$ 10,000	4.25%	\$ 15,000	4.45%	\$ 100,000	125,000
2011	5.75	10,000	4.25	15,000	4.45	105,000	130,000
2012	5.80	10,000	4.25	15,000	4.45	105,000	130,000
2013	5.85	10,000	4.25	15,000	4.45	110,000	135,000
2014	5.90	10,000		-	4.45	115,000	125,000
2015	6.00	10,000		-	4.45	125,000	135,000
2016	6.00	10,000		-		-	10,000
Total		<u>\$ 70,000</u>		<u>\$ 60,000</u>		<u>\$ 660,000</u>	<u>790,000</u>

See accompanying independent auditor's report.



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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Elkhart, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 2, 2009. Our report expressed qualified opinions on the financial statements, which were prepared in accordance with an other comprehensive basis of accounting, since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Elkhart'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 of Elkhart's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Elkhart'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 of Elkhart'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 of Elkhart's financial statements that is more than inconsequential will not be prevented or detected by the City of Elkhart's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings 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 of Elkhart'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 (A) and (B) are material weaknesses.

Compliance and Other Matters

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, 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 the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 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's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Elkhart's 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 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

November 2, 2009

City of Elkhart

Schedule of Findings

Year ended June 30, 2009

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- (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 cash.
 - (2) Receipts – opening mail, collecting, depositing, posting and reconciling.
 - (3) Disbursements – invoice processing, mailing, recording and reconciling.
 - (4) Payroll – recordkeeping, preparation and distribution.
 - (5) Utilities – billing, collecting, depositing and posting.
 - (6) Debt – recordkeeping, debt payment processing and reconciling.

In addition, an independent person does not enter utility rates and testing of the rates is not saved by the City.

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. 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 the review.

Response – The City will segregate to the extent possible. The Council person over city hall will begin reviewing monthly bank statements and utility billings. The City plans to utilize the Council person who oversees city hall to a greater extent to limit the exposure of having only one employee handle so much of the day-to-day activity. All items reviewed by the Council person and the Mayor will be dated and initialed. Future payroll timecards will be reviewed and initialed by the Mayor. All checks do require two signatures.

Conclusion – Response accepted.

- (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.

City of Elkhart

Schedule of Findings

Year ended June 30, 2009

Response – The City Clerk will begin preparing a monthly report to be shown to the Council person in charge of water and sewer which will reflect outstanding balances and late customers. Shut off lists will be compiled and compared against the late charge report.

Conclusion – Response accepted.

- (C) Bank Reconciliations – Monthly bank statements are reconciled to the City's monthly financial report. However, the monthly bank reconciliations are not reviewed and approved by an independent person.

Recommendation – An independent person should review the reconciliations and document their review by initialing and dating the monthly reconciliations.

Response – The Council person over city hall will review, date and initial statements and verify the check register.

Conclusion – Response acknowledged.

- (D) Electronic Data Processing Systems – The following weaknesses in the City's computer based systems were noted:

- The City does not have a written policy regarding the personal use of computers and software.
- The City does not have a written policy on use of the internet.
- Employee passwords are not changed periodically and passwords are not set to a recommended minimum of eight characters.
- The computer system does not deny access after three failed login attempts.
- Daily and weekly system backups are not performed and backups are not kept at an off-site location
- The City does not have a written disaster recovery plan.

Recommendation – The City should address the above items in order to improve the City's control over computer based systems. Also, a written disaster recovery plan should be developed.

Response – The City of Elkhart recognizes our electronic data processing system is in need of updating. The City intends to establish a written policy regarding the following areas: personal use of computers and software, policy on use of the internet, and a written disaster recovery plan. Our current software is not configured to accept 8 characters and does not deny access after three failed login attempts. The City Clerk has received permission to look into other city software companies to see if there is an affordable option which suits our needs while at the same time increases security. The new City Clerk has agreed to begin a weekly backup of the computer system and will store the backup at a secure site in her home.

Conclusion – Response accepted.

City of Elkhart

Schedule of Findings

Year ended June 30, 2009

(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.
- (2) Save supervisory time by recording decisions so they will not have to be made each time the same or a similar situation arises.
- (3) Aid in training additional or replacement personnel.

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

Response – The City of Elkhart is in the process of training a new City Clerk. A procedure manual has been created to aid in the training process. The manual is not complete; however, we are continuing to add to the manual while training in hopes of having a comprehensive manual by the time the training is complete.

Conclusion – Response accepted.

(F) Petty Cash – A petty cash fund is maintained at City Hall. The Council changed the authorized amount during the current fiscal year but the petty cash fund was not increased. There is no tracking of petty cash receipts for copy and fax fees and no reconciliation is performed for petty cash. In addition, petty cash receipts are not reviewed by an independent person.

Recommendation – The petty cash fund should be adjusted to reflect the amount authorized by the Council. The City should develop procedures to track miscellaneous petty cash receipts and to periodically reconcile petty cash amounts to the authorized amount. Petty cash receipts should be reviewed by an independent person.

Response – Since the audit, the petty cash total has been increased to reflect the amount that has been approved by the City Council. The petty cash beginning balance was verified by the auditors and receipts and disbursements are now being recorded. A monthly review and balance reconciliation will be performed by the Council person over city hall.

Conclusion – Response accepted.

(G) 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 the initials or signature of the reviewer.

Response – The Mayor will initial timesheets for City employees.

Conclusion – Response accepted.

City of Elkhart

Schedule of Findings

Year ended June 30, 2009

- (H) Transfers – The Council did not approve transfers between funds.
Recommendation – The Council should approve all transfers between funds.
Response – All future transfers of funds will be approved by resolution of the City Council prior to the occurrence of the transfer.
Conclusion – Response accepted.
- (I) Separately Maintained Records – The bookkeeping and custody of the Elkhart Memorial Park Board and the Elkhart Cemetery Association are under the control of individuals in a location separate from the Clerk’s office. These transactions and the resulting balances are not recorded in the Clerk’s records.
Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.”
Recommendation – For better accountability, financial and budgetary control, all City financial activity and balances should be recorded in the Clerk’s records.
Response – The City Clerk will include the above mentioned groups in our financial report upon further review and approval by the City Council and the notification of the respective boards.
Conclusion – Response accepted.
- (J) 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, the Association did not account for the numerical sequence of checks.
Supporting documentation was not retained for certain disbursements.
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. An independent person should review the reconciliations and document their review by initialing and dating the monthly reconciliations. In addition, the Association should account for the numerical sequence of checks.
Supporting documentation should be maintained for all disbursements.
Response – As of July 1, 2009 all receipts and disbursements will be entered into an Excel spreadsheet and there will be a monthly reconciliation.
Conclusion – Response acknowledged. Supporting documentation should also be maintained for all disbursements.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Elkhart

Schedule of Findings

Year ended June 30, 2009

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2009 exceeded the amount budgeted in the culture and recreation function. In addition, disbursements exceeded the amounts budgeted in the public works and culture and recreation functions before the budget was amended.

Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – All future budgets will be amended prior to the time the budget is exceeded.

Conclusion – Response accepted.

- (2) 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.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Kevin Smith, Council Member, Owner of Kevin Smith Construction	Maintenance shop repair	\$ 1,225

In accordance with Chapter 362.5(11) of the Code of Iowa, the transaction with the Council Member does not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

- (5) 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.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The list of bills approved in the minutes of the June 15, 2009 Council meeting were not published as required by Chapter 372.13(6). In addition, the City did not publish a summary of receipts and total disbursements from each fund as required by Chapter 372.13(6) for regular board meetings.

Recommendation – The City should publish minutes, including a list of claims, summary of receipts and total disbursements by fund as required.

City of Elkhart

Schedule of Findings

Year ended June 30, 2009

Response – The list of bills that were approved at the June 15, 2009 City Council meeting but were not published was an oversight by the City Clerk. It is City policy to approve and publish all minutes including submitted bills. A closer review prior to publication will take place to ensure this doesn't happen again. The current software does not keep track of a summary of receipts and disbursements by fund as required. We will address this when we look for new/updated software.

Conclusion – Response accepted.

- (7) Deposits and Investments – A resolution naming the official depository has not been approved by the City.

Except as noted above, 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.

Recommendation – The City should approve a new resolution to designate the approved depository institution. The resolution should also indicate the maximum deposit amount to be held at the institution.

Response – The City will approve a resolution to designate and approve the depository institution. The resolution will also state the maximum deposit amount to be held at the institution.

Conclusion – Response accepted.

- (8) Financial Condition – The Enterprise, Sewer Fund had a deficit balance of \$15,447 at June 30, 2009.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The City increased sewer rates in FY08 to help offset the deficit balance in sewer, and our sewer revenue note was paid off in FY09. The Sewer Fund is anticipated to have a positive balance by the end of FY10.

Conclusion – Response accepted.

- (9) Sales Tax – Sales tax on sewer services provided to non-residential commercial operations was assessed by the City. However, the City did not remit the sales tax collected to the Iowa Department of Revenue as required by 701-26.72 of the Iowa Department of Revenue Administrative Rules and Regulations.

Recommendation – The City should work with the Iowa Department of Revenue to resolve this issue.

Response – Amended returns will need to be filed from 3rd quarter 2006 to present to reflect the amount of sewer sales tax received from businesses and churches in the City of Elkhart. Three years is the statute of limitations for state sales tax.

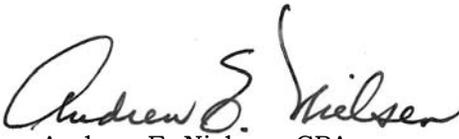
Conclusion – Response acknowledged. The City should consult the Department of Revenue to resolve this issue.

City of Elkhart

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Lesley R. Geary, CPA, Senior Auditor II
Jeana R. Muhlbauer, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State