

CITY OF ELK HORN, IOWA
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

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CITY OF ELK HORN, IOWA
CITY OFFICIALS
June 30, 2005

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Howard Sorensen	Mayor	January, 2008
Tim Fredericksen	Council Member	January, 2008
Paul Hansen	Council Member	January, 2006
Gene Mardsen	Council Member	January, 2008
H. John Jones	Council Member	January, 2008
Jimmy McCarthy	Council Member	January, 2006
Jo Christofferson	City Clerk	

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Elk Horn
Elk Horn, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Elk Horn, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Elk Horn's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as described in the following paragraph, 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 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, 2004.

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.

These financial statements do not include the government wide statement of activities and net assets, and reconciliations to the governmental and proprietary fund statements of cash receipts, disbursements and changes in cash balances as required by U.S. governmental accounting standards.

To the Honorable Mayor and
Members of the City Council
City of Elk Horn

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, 2004, and except that the omission of a statement of activities and net assets results in an incomplete presentation as discussed in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Elk Horn as of June 30, 2005, 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.

The City has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated January 11, 2006 on our consideration of the City of Elk Horn's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 13 through 14 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elk Horn's basic financial statements. Other supplementary information included in Schedules 1 through 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gronewold, Bell, Kyhn & Co. P.C.

Atlantic, Iowa
January 11, 2006

CITY OF ELK HORN, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2005

	General	Special Revenue
		Road Use Tax
Receipts:		
Property tax	\$ 91,907	\$ --
Tax increment financing collections	--	--
Other city tax	11,001	--
Licenses and permits	1,078	--
Use of money and property	4,997	--
Intergovernmental	22,399	53,962
Charges for service	11,333	--
Special assessments	1,223	--
Miscellaneous	14,088	683
Total receipts	158,026	54,645
Disbursements:		
Operating:		
Public safety	18,341	--
Public works	4,593	68,092
Culture and recreation	64,130	--
General government	49,121	--
Debt service	--	--
Total disbursements	136,185	68,092
Excess (deficiency) of receipts over (under) disbursements	21,841	(13,447)
Other financing sources (uses):		
Operating transfers in	--	--
Operating transfers out	(15,500)	--
Total other financing sources (uses)	(15,500)	--
Net change in cash balances	6,341	(13,447)
Cash balances beginning of year	187,353	37,209
Cash balances end of year	\$ 193,694	\$ 23,762

(continued next page)

<u>Special Revenue</u>		<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Urban Renewal Tax Increment</u>	<u>Local Option Sales Tax</u>		
\$ --	\$ --	\$ 19,431	\$ 111,338
46,152	--	--	46,152
--	42,157	--	53,158
--	--	--	1,078
--	--	--	4,997
--	--	--	76,361
--	--	--	11,333
--	--	--	1,223
--	--	--	14,771
<u>46,152</u>	<u>42,157</u>	<u>19,431</u>	<u>320,411</u>
--	--	--	18,341
--	--	--	72,685
--	--	--	64,130
--	--	--	49,121
--	--	45,736	45,736
<u>--</u>	<u>--</u>	<u>45,736</u>	<u>250,013</u>
46,152	42,157	(26,305)	70,398
--	--	33,981	33,981
--	(38,981)	--	(54,481)
<u>--</u>	<u>(38,981)</u>	<u>33,981</u>	<u>(20,500)</u>
46,152	3,176	7,676	49,898
(36,031)	89,825	1,144	279,500
<u>\$ 10,121</u>	<u>\$ 93,001</u>	<u>\$ 8,820</u>	<u>\$ 329,398</u>

CITY OF ELK HORN, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES - Continued
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2005

	General	Special Revenue Road Use Tax
Cash Basis Fund Balances		
Reserved:		
Debt service	\$ --	\$ --
Unreserved:		
General fund	193,694	--
Special revenue funds	--	23,762
Capital projects fund	--	--
Total cash basis fund balances	\$ 193,694	\$ 23,762

The accompanying notes are an integral part of these statements.

<u>Special Revenue</u>		<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Urban Renewal Tax Increment</u>	<u>Local Option Sales Tax</u>		
\$ --	\$ --	\$ (329)	\$ (329)
--	--	--	193,694
10,121	93,001	12	126,896
<u>--</u>	<u>--</u>	<u>9,137</u>	<u>9,137</u>
<u>\$ 10,121</u>	<u>\$ 93,001</u>	<u>\$ 8,820</u>	<u>\$ 329,398</u>

CITY OF ELK HORN, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the year ended June 30, 2005

	<u>Enterprise Funds</u>	
	<u>Water</u>	<u>Water Reserve</u>
Operating receipts:		
Use of money and property	\$ 149	\$ --
Charges for service	102,967	21,000
Miscellaneous	<u>452</u>	<u>--</u>
Total operating receipts	<u>103,568</u>	<u>21,000</u>
Operating disbursements:		
Business type activities	<u>119,808</u>	<u>--</u>
Total operating disbursements	<u>119,808</u>	<u>--</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	(16,240)	21,000
Non-operating disbursements:		
Debt service	<u>--</u>	<u>(20,147)</u>
Total non-operating receipts (disbursements)	<u>--</u>	<u>(20,147)</u>
Excess (deficiency) of receipts over (under) disbursements	(16,240)	853
Operating transfers in (out)	<u>25,000</u>	<u>--</u>
Net change in cash balances	8,760	853
Cash balances beginning of year	<u>(17,380)</u>	<u>3,731</u>
Cash balances end of year	<u>\$(8,620)</u>	<u>\$ 4,584</u>
Cash Basis Fund Balances		
Unreserved	<u>\$(8,620)</u>	<u>\$ 4,584</u>
Total cash basis fund balances	<u>\$(8,620)</u>	<u>\$ 4,584</u>

The accompanying notes are an integral part of these statements.

Enterprise Funds		
Sewer	Solid Waste	Total
\$ --	\$ --	\$ 149
37,329	47,662	208,958
<u>348</u>	<u>112</u>	<u>912</u>
<u>37,677</u>	<u>47,774</u>	<u>210,019</u>
<u>39,757</u>	<u>47,699</u>	<u>207,264</u>
<u>39,757</u>	<u>47,699</u>	<u>207,264</u>
(2,080)	75	2,755
<u>--</u>	<u>--</u>	<u>(20,147)</u>
<u>--</u>	<u>--</u>	<u>(20,147)</u>
(2,080)	75	(17,392)
<u>5,500</u>	<u>(10,000)</u>	<u>20,500</u>
3,420	(9,925)	3,108
<u>(3,200)</u>	<u>29,078</u>	<u>12,229</u>
<u>\$ 220</u>	<u>\$ 19,153</u>	<u>\$ 15,337</u>
<u>\$ 220</u>	<u>\$ 19,153</u>	<u>\$ 15,337</u>
<u>\$ 220</u>	<u>\$ 19,153</u>	<u>\$ 15,337</u>

CITY OF ELK HORN, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Elk Horn, Iowa is a political subdivision of the State of Iowa located in Shelby County. It was first incorporated in 1884 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities, and solid waste disposal services for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

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

B. Basis of Presentation

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 aggregated 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 charge and the capital improvement costs that are not paid from other funds.

CITY OF ELK HORN, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Special Revenue:

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

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Local Option Sales Tax Fund is used to account for the collection of sales tax revenues and its allowable uses.

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.

The Solid Waste Fund accounts for the operation of the City's collection and disposal of solid waste.

C. Measurement Focus and Basis of Accounting

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

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.

CITY OF ELK HORN, IOWA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005

NOTE 2 - CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2005 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.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk - The city had no investments with credit risk.

NOTE 3 - BONDS AND NOTES PAYABLE

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds - Water	
	Principal	Interest	Principal	Interest
2006	\$ 10,000	\$ 2,405	\$ 12,415	\$ 7,732
2007	15,000	1,815	13,036	7,111
2008	15,000	915	13,688	6,459
2009	--	--	14,372	5,775
2010	--	--	15,091	5,057
2011 - 2015	--	--	86,037	13,181
2016 - 2020	--	--	--	--
2021	--	--	--	--
	<u>\$ 40,000</u>	<u>\$ 5,135</u>	<u>\$ 154,639</u>	<u>\$ 45,315</u>

CITY OF ELK HORN, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 3 - BONDS AND NOTES PAYABLE - Continued

Year Ending June 30,	General Obligation Bond Water Tower		Total	
	Principal	Interest	Principal	Interest
2006	\$ 18,000	\$ 13,520	\$ 40,415	\$ 23,657
2007	19,000	12,885	47,036	21,811
2008	19,000	12,214	47,688	19,588
2009	20,000	11,543	34,372	17,318
2010	21,000	10,837	36,091	15,894
2011 - 2015	116,000	42,572	202,037	55,753
2016 - 2020	139,000	20,509	139,000	20,509
2021	31,000	1,094	31,000	1,094
	<u>\$ 383,000</u>	<u>\$ 125,174</u>	<u>\$ 577,639</u>	<u>\$ 175,624</u>

The resolutions providing for the issuance of the revenue bonds include the following provisions.

- a. Maintain the system in good condition.
- b. Adopt rates sufficient to produce net revenue adequate to meet the requirements of the debt service.
- c. The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.

NOTE 4 - PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2005 was \$3,674, equal to the required contribution for the year.

CITY OF ELK HORN, IOWA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005

NOTE 5 - COMPENSATED ABSENCES

One City employee accumulates a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as expenditures by the City until used or paid. The City has not computed its liability for unrecognized accrued employee vacation benefits at June 30, 2005.

NOTE 6 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Enterprise: Water	Special Revenue: Local Option Sales Tax	\$ 5,000
	Enterprise: Solid Waste	10,000
	General	<u>10,000</u>
		25,000
Enterprise: Sewer	General	5,500
Capital Projects: Water Tower	Special Revenue: Local Option Sales Tax	1,625
Debt Service: Debt Service	Special Revenue: Local Option Sales Tax	<u>32,356</u>
		<u>\$ 64,481</u>

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

NOTE 7 - RISK MANAGEMENT

The City of Elk Horn is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance coverage during the year ended June 30, 2005.

CITY OF ELK HORN, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 8 - COMMITMENT

On May 2, 2005 the members of the Elk Horn City Council entered into a contract for construction of water supply improvements. The total cost of the project is estimated at \$70,000, of which \$7,950 has been expended as of June 30, 2005. The cost of the project will be financed through the use of internally generated funds.

NOTE 9 - DEFICIT FUND BALANCES

The Debt Service Fund and Enterprise Fund Water account had deficit balances of \$329 and \$8,620, respectively, at June 30, 2005. Transfers from the General Fund and Water Reserve Fund can be made as necessary to eliminate the deficits.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ELK HORN, IOWA
 BUDGETARY COMPARISON SCHEDULE
 OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
 FUNDS AND PROPRIETRY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2005

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Less Funds not Required to be Budgeted</u>
Receipts:			
Property tax	\$ 111,338	\$ --	\$ --
Tax increment financing collections	46,152	--	--
Other city tax	53,158	--	--
Licenses and permits	1,078	--	--
Use of money and property	4,997	149	--
Intergovernmental	76,361	--	--
Charges for service	11,333	208,958	--
Special assessments	1,223	--	--
Miscellaneous	14,771	912	--
Total receipts	<u>320,411</u>	<u>210,019</u>	<u>--</u>
Disbursements:			
Public safety	18,341	--	--
Public works	72,685	--	--
Culture and recreation	64,130	--	--
General government	49,121	--	--
Debt service	45,736	--	--
Business type activities	--	227,411	--
Total disbursements	<u>250,013</u>	<u>227,411</u>	<u>--</u>
Excess (deficiency) of receipts over (under) disbursements	70,398	(17,392)	--
Other financing sources, net	<u>(20,500)</u>	<u>20,500</u>	<u>--</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	49,898	3,108	--
Balances beginning of year	<u>279,500</u>	<u>12,229</u>	<u>--</u>
Balances end of year	<u>\$ 329,398</u>	<u>\$ 15,337</u>	<u>\$ --</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 111,338	\$ 106,613	\$ 106,613	\$ 4,725
46,152	46,379	46,379	(227)
53,158	48,573	48,573	4,585
1,078	1,000	1,000	78
5,146	5,000	5,000	146
76,361	71,559	71,559	4,802
220,291	230,375	230,375	(10,084)
1,223	--	--	1,223
<u>15,683</u>	<u>1,760</u>	<u>1,760</u>	<u>13,923</u>
<u>530,430</u>	<u>511,259</u>	<u>511,259</u>	<u>19,171</u>
18,341	27,458	27,458	9,117
72,685	79,535	79,535	6,850
64,130	59,713	69,713	5,583
49,121	42,408	52,408	3,287
45,736	13,280	46,000	264
<u>227,411</u>	<u>283,440</u>	<u>283,440</u>	<u>56,029</u>
<u>477,424</u>	<u>505,834</u>	<u>558,554</u>	<u>81,130</u>
53,006	5,425	(47,295)	100,301
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
53,006	5,425	(47,295)	100,301
<u>291,729</u>	<u>470,527</u>	<u>470,527</u>	<u>(178,798)</u>
<u>\$ 344,735</u>	<u>\$ 475,952</u>	<u>\$ 423,232</u>	<u>\$ (78,497)</u>

CITY OF ELK HORN, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY REPORTING

June 30, 2005

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 Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$52,720. This budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF ELK HORN, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2005

	<u>Special Revenue</u>	<u>Capital Projects</u>	
	<u>Employee Benefits</u>	<u>Water Tower</u>	<u>Capital Improvements</u>
Receipts:			
Property tax	\$ --	\$ --	\$ 6,244
Total receipts	<u> --</u>	<u> --</u>	<u> 6,244</u>
Disbursements:			
Debt service	<u> --</u>	<u> --</u>	<u> --</u>
Total disbursements	<u> --</u>	<u> --</u>	<u> --</u>
Excess (deficiency) of receipts over (under) disbursements	--	--	6,244
Other financing sources:			
Operating transfers in	<u> --</u>	<u> 1,625</u>	<u> --</u>
Net change in cash balances	--	1,625	6,244
Cash balances beginning of year	<u> 12</u>	<u> --</u>	<u> 1,268</u>
Cash balances end of year	<u>\$ 12</u>	<u>\$ 1,625</u>	<u>\$ 7,512</u>
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ --	\$ --	\$ --
Unreserved:			
Special revenue funds	12	--	--
Capital projects fund	<u> --</u>	<u> 1,625</u>	<u> 7,512</u>
Total cash basis fund balances	<u>\$ 12</u>	<u>\$ 1,625</u>	<u>\$ 7,512</u>

See accompanying independent auditor's report.

<u>Debt Service</u>	<u>Total</u>
\$ 13,187	\$ 19,431
<u>13,187</u>	<u>19,431</u>
 45,736	 45,736
<u>45,736</u>	<u>45,736</u>
 (32,549)	 (26,305)
 <u>32,356</u>	 <u>33,981</u>
 (193)	 7,676
 <u>(136)</u>	 <u>1,144</u>
 <u>\$(329)</u>	 <u>\$ 8,820</u>
 \$(329)	 \$(329)
 --	 12
 <u>--</u>	 <u>9,137</u>
 <u>\$(329)</u>	 <u>\$ 8,820</u>

CITY OF ELK HORN, IOWA
 SCHEDULE OF INDEBTEDNESS
 Year ended June 30, 2005

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>
General Obligation:			
Water Improvement Bonds	October 10, 1995	4.6% - 6.1%	\$ 130,000
Water Tower	September 7, 2001	3.53%	450,000
Revenue Bonds:			
Water	January 29, 1980	5.0%	339,800

See accompanying independent auditor's report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 50,000	\$ --	\$ 10,000	\$ 40,000	\$ 2,980	\$ --
<u>401,000</u>	<u>--</u>	<u>18,000</u>	<u>383,000</u>	<u>14,155</u>	<u>--</u>
<u>\$ 451,000</u>	<u>\$ --</u>	<u>\$ 28,000</u>	<u>\$ 423,000</u>	<u>\$ 17,135</u>	<u>\$ --</u>
<u>\$ 166,585</u>	<u>\$ --</u>	<u>\$ 11,946</u>	<u>\$ 154,639</u>	<u>\$ 8,201</u>	<u>\$ --</u>

CITY OF ELK HORN, IOWA
BOND AND NOTE MATURITIES
June 30, 2005

<u>Year ending June 30,</u>	<u>Revenue Bonds</u>	
	<u>Water</u>	
	<u>Issued January 29, 1980</u>	
	<u>Interest Rate</u>	<u>Amount</u>
2006	5.0%	\$ 12,415
2007	5.0	13,036
2008	5.0	13,688
2009	5.0	14,372
2010	5.0	15,091
2011	5.0	15,845
2012	5.0	16,637
2013	5.0	17,469
2014	5.0	18,343
2015	5.0	<u>17,743</u>
		<u>\$ 154,639</u>
	<u>General Obligation Bonds</u>	
	<u>Water Improvement</u>	
	<u>Issued October 10, 1995</u>	
	<u>Interest Rates</u>	<u>Amount</u>
2006	5.90%	10,000
2007	6.00	\$ 15,000
2008	6.10	<u>15,000</u>
		<u>\$ 40,000</u>

(continued next page)

CITY OF ELK HORN, IOWA
 BOND AND NOTE MATURITIES - Continued
 June 30, 2005

<u>Year ending June 30,</u>	<u>General Obligation Bonds</u>	
	<u>Water Tower</u>	
	<u>Issued September 7, 2001</u>	
	<u>Interest</u>	
	<u>Rate</u>	<u>Amount</u>
2006	3.53%	\$ 18,000
2007	3.53	19,000
2008	3.53	19,000
2009	3.53	20,000
2010	3.53	21,000
2011	3.53	22,000
2012	3.53	22,000
2013	3.53	23,000
2014	3.53	24,000
2015	3.53	25,000
2016	3.53	26,000
2017	3.53	27,000
2018	3.53	28,000
2019	3.53	28,000
2020	3.53	30,000
2021	3.53	<u>31,000</u>
		<u>\$ 383,000</u>

See accompanying independent auditor's report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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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
City of Elk Horn
Elk Horn, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Elk Horn, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 11, 2006. Our report expressed a qualified opinion on the financial statements since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004, which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The City of Elk Horn's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Elk Horn's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

To the Honorable Mayor and
Members of the City Council
City of Elk Horn

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 05-I-A is a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

Gloria Wald, Bell, Kyhan & P.C.

Atlantic, Iowa
January 11, 2006

CITY OF ELK HORN, IOWA

Schedule of Findings

Year ended June 30, 2005

PART I - REPORTABLE CONDITIONS:

05-I-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. However, because there are a limited number of people that have the primary responsibility for the accounting and financial duties, those aspects of internal accounting control which rely upon an adequate segregation of duties are missing in the City.

Recommendation: We recognize that it may not be economically feasible for the City to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the City review its control procedures to obtain the maximum internal control possible under the circumstances and the Council be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Council is aware of this lack of segregation of duties, but it is not economically feasible for the City to employ additional personnel for this reason. The Council will continue to act as an oversight group.

Conclusion: Response accepted.

CITY OF ELK HORN, IOWA

Schedule of Findings

Year ended June 30, 2005

PART II - REQUIRED STATUTORY REPORTING

05-II-A Official Depositories: A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

05-II-B Certified Budget: Disbursements during the year ended June 30, 2005 did not exceed the amounts budgeted; however, a budget amendment was approved June 6, 2005. Chapter 384.18 of the Code of Iowa states that a budget shall be amended by May 31 of the current year to allow time for a protest hearing to be held and a decision rendered before June 30.

Recommendation - The budget should have been amended prior to May 31 in accordance with Chapter 384.18 of the Code of Iowa.

Response - The budget will be properly amended in the future, if applicable.

Conclusion - Response accepted.

05-II-C Questionable Disbursements: During the audit, we noted no expenditures for parties, banquets or other entertainment for employees or Council members that we believe may constitute an unlawful expenditure of public funds as defined in an Attorney General's opinion dated April 25, 1979.

05-II-D Travel Expense: No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.

05-II-E Business Transactions: During our audit, no business transactions between the City and City officials or employees were noted.

05-II-F Bond Coverage: Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

05-II-G Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.

CITY OF ELK HORN, IOWA

Schedule of Findings

Year ended June 30, 2005

PART II - REQUIRED STATUTORY REPORTING - Continued

05-II-H Deposits and Investments: We noted that the City has a written investment policy as required by the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa. However, its written policy references Chapter 452 instead of Chapters 12B and 12C of the Code of Iowa.

Recommendation: The written investment policy should be revised in accordance with Chapters 12B and 12C of the Code of Iowa.

Response: We will revise our written investment policy.

Conclusion: Response accepted.

05-II-I Revenue Notes: The City is in compliance with its revenue note resolutions.

05-II-J Financial Condition: The Debt Service Fund and Enterprise Fund Water account had deficit balances at June 30, 2005 of \$329 and \$8,620, respectively.

Recommendation: The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial position.

Response: We will investigate the elimination of the deficit balances.

Conclusion: Response accepted.

* * *