

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE _____ December 11, 2012

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$321,051 for the year ended June 30, 2012. The receipts included \$106,703 in property tax, \$70,620 from tax increment financing, \$78,377 from charges for service, \$59,932 from operating grants, contributions and restricted interest, \$3,024 from unrestricted interest on investments and \$2,395 from other general receipts.

Disbursements for the year totaled \$263,150, and included \$60,900 for public works, \$58,416 for community and economic development and \$57,023 for general government. Also, disbursements for business type activities totaled \$40,347.

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/1222-0724-B00F.pdf>.

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CITY OF RUNNELLS

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

JUNE 30, 2012

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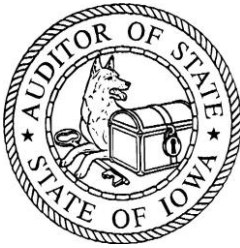
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City of Runnells

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
Tony Strom	Mayor	(Resigned)
Lori Freel	Mayor Pro tem	Jan 2014
Richard Battani	Council Member	Nov 2011
Matthew Beattie	Council Member	Jan 2012
Jeremy Logue	Council Member	Jan 2012
Skip Dunbar	Council Member	Jan 2014
Scott Strait	Council Member	Jan 2014
(After January 2012)		
Ron Tate	Mayor	Jan 2016
Lori Freel	Mayor Pro tem	Jan 2014
Jerry Lane (Appointed)	Council Member	Nov 2013
Skip Dunbar	Council Member	Jan 2014
Scott Strait	Council Member	Jan 2014
Richard Battani	Council Member	Jan 2016
Carol Elam	Clerk/Finance Director	Indefinite
Geri Huser	Attorney	Indefinite

City of Runnells



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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 Runnells, Iowa, as of and for the year ended June 30, 2012, 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 Runnells' management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards 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, 2011.

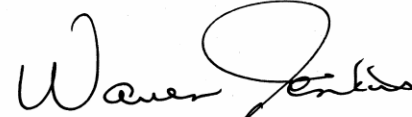
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2011, as discussed in the preceding paragraph, the financial statements referred to above present 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 Runnells as of June 30, 2012, 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 6, 2012 on our consideration of the City of Runnells' 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 the internal control over financial reporting or on 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Runnells' basic financial statements. The 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. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with U.S. generally accepted auditing standards. 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, 2011, as discussed in the third paragraph, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Runnells' basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 11 and 26 through 28 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 6, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Runnells 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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

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

2012 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased approximately \$52,000 during the fiscal year, primarily due to road use tax and tax increment financing collections not entirely spent during the year.
- The cash basis net assets of the City's business type activities increased approximately \$6,000 during the fiscal year.

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 financial 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.

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

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, community and economic development and general government. Property tax and state 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, and 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment. 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.

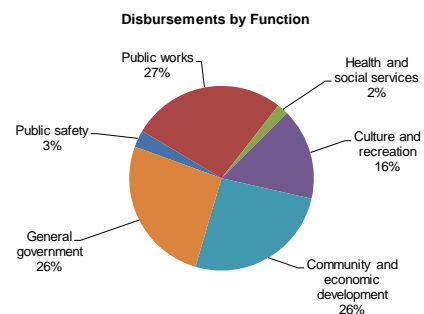
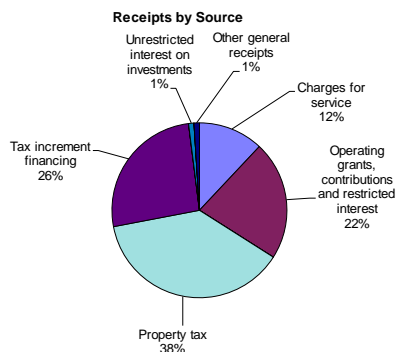
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

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 increased from a year ago, from \$186,892 to \$238,622, primarily due to road use tax and tax increment financing collections not entirely spent during the year. 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, 2012
Receipts:	
Program receipts:	
Charges for service	\$ 32,828
Operating grants, contributions and restricted interest	59,932
General receipts:	
Property tax	106,703
Tax increment financing	70,620
Unrestricted interest on investments	2,055
Other general receipts	2,395
Total receipts	<u>274,533</u>
Disbursements:	
Public safety	6,800
Public works	60,900
Health and social services	4,039
Culture and recreation	35,625
Community and economic development	58,416
General government	57,023
Total disbursements	<u>222,803</u>
Change in cash basis net assets	51,730
Cash basis net assets beginning of year	<u>186,892</u>
Cash basis net assets end of year	<u>\$ 238,622</u>



Total business type activities cash basis net assets increased approximately \$6,000 from a year ago, from \$145,926 to \$152,097.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2012
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 4,338
Sewer	41,211
General receipts:	
Unrestricted interest on investments	969
Total receipts	<u>46,518</u>
Disbursements:	
Water	5,117
Sewer	35,230
Total disbursements	<u>40,347</u>
Change in cash basis net assets	6,171
Cash basis net assets beginning of year	<u>145,926</u>
Cash basis net assets end of year	<u>\$ 152,097</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City completed the year, its governmental funds reported a combined fund balance of \$238,622, an increase of \$51,730 above last year's total of \$186,892. 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 \$14,393 from the prior year to \$103,628. This increase was due to receipts exceeding disbursements for the fiscal year.
- The Special Revenue, Road Use Tax Fund cash balance increased \$19,565 from the prior year to \$19,756. This increase was due to road use tax collections not entirely spent during the fiscal year. The City intends to use this money to upgrade the condition of City roads.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$12,204 from the prior year to \$103,091. This increase was due to tax increment financing collections not entirely spent during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$722 to \$45,398.
- The Enterprise, Sewer Fund cash balance increased \$6,893 to \$106,699.

BUDGETARY HIGHLIGHTS

The City did not amend the budget during the year.

The City's receipts were \$32,232 more than budgeted. This was primarily due to the City receiving more in road use tax and tax increment financing than anticipated.

Total disbursements were \$20,363 less than budgeted. Disbursements in the general government, business type activities and public works functions were \$8,431, \$5,394 and \$2,997, respectively, less than budgeted. This was primarily due to lower than budgeted payroll costs and a new contract for waste management services with a significantly lower cost.

The City exceeded the amount budgeted in the health and social services function for the year ended June 30, 2012.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$159,172 of bonds and other long-term debt outstanding, compared to \$173,836 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2012	2011
Sewer revenue bonds	\$ 136,539	147,481
Bank loan	14,526	16,081
Installment purchase agreement	8,107	10,274
Total	\$ 159,172	173,836

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 bank loan and installment purchase agreement debt and TIF development agreement debt totaling \$63,126 is significantly below its constitutional debt limit of approximately \$1,089,000. Additional information about the City's long-term debt is presented in Notes 3 and 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Runnells' elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities. The City's fiscal year 2013 taxable valuation has increased \$961,356 from fiscal year 2012.

The fiscal year 2013 budget contains total receipts of \$295,161 and disbursements of \$293,912. This budget is higher than the fiscal year 2012 budget which contained total receipts of \$283,517 and disbursements of \$282,508.

If these estimates are realized, the City's budgeted cash balance is expected to increase \$1,249 by the close of fiscal year 2013.

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 Carol Elam, City Clerk, 110 Brown Street, Runnells, Iowa 50237.

City of Runnels

Basic Financial Statements

City of Runnells

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2012

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 6,800	220	-
Public works	60,900	23,266	48,094
Health and social services	4,039	-	-
Culture and recreation	35,625	8,237	11,838
Community and economic development	58,416	-	-
General government	57,023	1,105	-
Total governmental activities	222,803	32,828	59,932
Business type activities:			
Water	5,117	4,338	-
Sewer	35,230	41,211	-
Total business type activities	40,347	45,549	-
Total	\$ 263,150	78,377	59,932

General Receipts:

Property and other city tax levied for general purposes
 Tax increment financing
 Unrestricted interest on investments
 Miscellaneous
 Total general receipts
 Change in cash basis net assets
 Cash basis net assets beginning of year
 Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Streets
 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
(6,580)	-	(6,580)
10,460	-	10,460
(4,039)	-	(4,039)
(15,550)	-	(15,550)
(58,416)	-	(58,416)
(55,918)	-	(55,918)
(130,043)	-	(130,043)
-	(779)	(779)
-	5,981	5,981
-	5,202	5,202
(130,043)	5,202	(124,841)
106,703	-	106,703
70,620	-	70,620
2,055	969	3,024
2,395	-	2,395
181,773	969	182,742
51,730	6,171	57,901
186,892	145,926	332,818
\$ 238,622	152,097	390,719
\$ 19,756	-	19,756
103,091	-	103,091
-	19,482	19,482
12,147	-	12,147
103,628	132,615	236,243
\$ 238,622	152,097	390,719

City of Runnells

City of Runnells

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

As of and for the year ended June 30, 2012

	Special Revenue				Total
	General	Road Use Tax	Urban Renewal Tax Increment	Nonmajor	
Receipts:					
Property tax	\$ 96,688	-	-	6,728	103,416
Tax increment financing	-	-	70,620	-	70,620
Other city tax	3,072	-	-	215	3,287
Licenses and permits	1,215	-	-	-	1,215
Use of money and property	9,751	-	-	44	9,795
Intergovernmental	4,036	48,094	-	-	52,130
Charges for service	23,266	-	-	-	23,266
Miscellaneous	5,502	-	-	5,302	10,804
Total receipts	143,530	48,094	70,620	12,289	274,533
Disbursements:					
Operating:					
Public safety	6,800	-	-	-	6,800
Public works	29,845	28,529	-	2,526	60,900
Health and social services	4,039	-	-	-	4,039
Culture and recreation	33,677	-	-	1,948	35,625
Community and economic development	-	-	58,416	-	58,416
General government	54,776	-	-	2,247	57,023
Total disbursements	129,137	28,529	58,416	6,721	222,803
Net change in cash balances	14,393	19,565	12,204	5,568	51,730
Cash balances beginning of year	89,235	191	90,887	6,579	186,892
Cash balances end of year	\$ 103,628	19,756	103,091	12,147	238,622
Cash Basis Fund Balances					
Restricted for:					
Streets	\$ -	19,756	-	-	19,756
Urban renewal purposes	-	-	103,091	-	103,091
Other purposes	-	-	-	12,147	12,147
Unassigned	103,628	-	-	-	103,628
Total cash basis fund balances	\$ 103,628	19,756	103,091	12,147	238,622

See notes to financial statements.

City of Runnells

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

As of and for the year ended June 30, 2012

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 4,266	41,211	45,477
Miscellaneous	72	-	72
Total operating receipts	4,338	41,211	45,549
Operating disbursements:			
Business type activities	5,117	17,247	22,364
Excess (deficiency) of operating receipts over (under) operating disbursements	(779)	23,964	23,185
Non-operating receipts (disbursements):			
Interest on investments	57	912	969
Debt service	-	(17,983)	(17,983)
Net non-operating receipts (disbursements)	57	(17,071)	(17,014)
Net change in cash balances	(722)	6,893	6,171
Cash balances beginning of year	46,120	99,806	145,926
Cash balances end of year	\$ 45,398	106,699	152,097
Cash Basis Fund Balances			
Restricted for debt service	\$ -	19,482	19,482
Unrestricted	45,398	87,217	132,615
Total cash basis fund balances	\$ 45,398	106,699	152,097

See notes to financial statements.

City of Runnells

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

City of Runnells is a political subdivision of the State of Iowa located in Polk County. It was first incorporated in 1881 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 Runnells 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 Runnells (the primary government) and its blended 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

Runnells Area Park Co. (RAPCO) is legally separate from the City, but is so intertwined with the City it is, in substance, the same as the City. RAPCO is organized under Chapter 504A of the Code of Iowa as a non-profit corporation for the purpose of promoting recreational activities within the City. In accordance with the criteria set forth by the Governmental Accounting Standards Board, RAPCO meets the definition of a component unit which should be blended. The financial transactions of the component unit have been reported 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 Emergency Management Commission, Polk County Joint E911 Service Board and the Polk County Assessor's Conference Board.

B. Basis of Presentation

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

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

Expendable 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 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 from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

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

The City reports the following major proprietary funds:

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

The Enterprise, 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 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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the health and social services function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 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

Annual debt service requirements to maturity for the sewer revenue bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 11,165	6,818	17,983
2014	11,714	6,269	17,983
2015	12,300	5,683	17,983
2016	12,908	5,075	17,983
2017	13,567	4,416	17,983
2018-2022	74,885	10,619	85,504
Total	\$ 136,539	38,880	175,419

Sewer Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$303,300 of sewer revenue bonds issued November 1, 1982. The bonds were issued for the purpose of paying costs of improvements and extensions to the municipal sewer utility system. The bonds are payable solely from sewer customer net receipts and are payable through 2022. Annual principal and interest payments on the bonds are expected to require approximately 75% of net receipts. The total principal and interest remaining to be paid on the bonds is \$175,419. For the current year, principal and interest paid and total customer net receipts were \$17,983 and \$23,964, respectively.

The resolution providing for the issuance of the sewer revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- (b) User rates or charges to consumers shall be sufficient in each year for the payment of the proper and reasonable expenses of operation and maintenance of the system, for the payment of principal and interest on the bonds and to provide for the creation of reserves.

- (c) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account within the Enterprise Fund for the purpose of making the bond principal and interest payments when due.
- (d) Additional monthly transfers shall be made to a sewer revenue reserve account within the Enterprise Fund until \$17,983 has been accumulated in the account. This account is restricted for the purpose of paying principal and interest on the bonds when insufficient money is available in the sinking account.
- (e) The City will cause the books and accounts to be audited annually not later than 90 days after the end of each fiscal year by an independent auditor.

The City has not created a sewer revenue bond sinking account and made the required transfers. In addition, the City has not complied with the annual audit requirement.

Bank Loan

On November 10, 2008, the City entered into a bank loan of \$35,000 for the purchase of real property. The loan bears interest of 5.5% per annum. The terms of the original agreement called for regular monthly payments of all accrued unpaid interest, beginning December 10, 2008, and one principal payment of \$35,000 plus interest on November 10, 2009. Pursuant to a change in the loan terms, the City made a \$16,724 principal payment on December 17, 2009. Under the new terms, the maturity date was extended to December 17, 2012 and the City is to make monthly principal and interest payments of \$201 beginning January 10, 2010 and continuing through December 17, 2012, at which time the principal payoff balance will be \$13,715. During the year ended June 30, 2012, the City paid \$1,555 of principal and \$860 of interest on the loan. The principal balance at June 30, 2012 was \$14,526.

Installment Purchase Agreement

On January 21, 2011, the City entered into an installment purchase agreement for \$13,500 to purchase a mower. The agreement bears interest of 9.52% per annum and is to be repaid in annual installments of \$3,237, including interest, for a period of 5 years. During the year ended June 30, 2012 the City paid \$2,167 of principal and \$1,070 of interest on the agreement. The principal balance at June 30, 2012 was \$8,107.

(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 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2012 was \$3,097, equal to the required contribution for the year.

(5) Development Agreement

The City entered into a development agreement on April 19, 2000 to assist in an urban renewal project. The agreement requires the City to rebate portions of the incremental property tax paid on the project area and received by the City into its Urban Renewal Tax Increment Fund in exchange for public improvements to be constructed on the development property.

In accordance with the April 19, 2000 development agreement, the incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa will be rebated to the developer for a period of ten years beginning June 1, 2003. The total amount rebated each year shall represent 80% of the incremental property tax received by the City, not to exceed \$450,169. During the year ended June 30, 2012, the City paid the developer \$56,001 from the incremental property tax received. The total cumulative amount rebated since inception of the agreement is \$387,043. The balance remaining at June 30, 2012 was \$63,126.

(6) 28E Agreement with Des Moines Water Works

In 2006, the City entered into a 28E agreement with Des Moines Water Works (DMWW) for DMWW to serve water and sanitary sewer customers in the City.

Under the agreement, the City authorized DMWW to exercise all of the City's powers to serve water and sanitary sewer customers within the City's service territory, including, but not limited to, the power to provide service; to expand and improve availability of service; to set and collect rates for water service and sanitary sewer service; to maintain, replace, service and build water distribution facilities and sewer and wastewater treatment facilities; to bill and collect for connection and service; to impose fees, liens and charges for nonpayment of service; and to discontinue service in the event of nonpayment or other delinquency. The City further authorized DMWW to submit joint bills for water service, sanitary sewer service, solid waste service and recycling service, together with bills for other City enterprise services.

The City maintains ownership of its water and sanitary sewer utility assets, including mains, valves, easements, sewer lines, treatment facilities and all related properties and facilities, but not including customer meters which became DMWW property. DMWW is solely responsible for the operation, maintenance, expansion and improvement of the City's water and sanitary sewer utility assets as required to provide adequate service to customers, except the City shall be responsible for financing significant improvements to the sanitary sewer system.

DMWW bills customers for water service and sanitary sewer service in DMWW's own name. Such bills also include solid waste and recycling charges billed in the name of the City at rates established by the City. DMWW remits a water availability charge to the City to defray the City's insurance and other retained water service costs. DMWW also remits a sewer availability charge to defray the City's debt service costs, insurance, labor and other retained sewer costs.

This contract shall continue until December 31, 2046, unless terminated sooner.

(7) Risk Management

The City 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 have not exceeded commercial insurance coverage in any of the past three fiscal years.

Other Information

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

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 103,416	-	-
Tax increment financing	70,620	-	-
Other city tax	3,287	-	-
Licenses and permits	1,215	-	-
Use of money and property	9,795	969	-
Intergovernmental	52,130	-	-
Charges for service	23,266	45,477	-
Miscellaneous	10,804	72	5,302
Total receipts	274,533	46,518	5,302
Disbursements:			
Public safety	6,800	-	-
Public works	60,900	-	-
Health and social services	4,039	-	-
Culture and recreation	35,625	-	1,005
Community and economic development	58,416	-	-
General government	57,023	-	-
Business type activities	-	40,347	-
Total disbursements	222,803	40,347	1,005
Excess of receipts over disbursements	51,730	6,171	4,297
Balances beginning of year	186,892	145,926	3,098
Balances end of year	\$ 238,622	152,097	7,395

See accompanying independent auditor's report.

Total	Original/ Final Budget	Final to Total Variance
103,416	103,501	(85)
70,620	56,000	14,620
3,287	3,301	(14)
1,215	1,475	(260)
10,764	7,700	3,064
52,130	31,300	20,830
68,743	73,740	(4,997)
5,574	6,500	(926)
<u>315,749</u>	<u>283,517</u>	<u>32,232</u>
6,800	8,330	1,530
60,900	63,897	2,997
4,039	4,000	(39)
34,620	35,086	466
58,416	60,000	1,584
57,023	65,454	8,431
40,347	45,741	5,394
<u>262,145</u>	<u>282,508</u>	<u>20,363</u>
53,604	1,009	52,595
<u>329,720</u>	<u>291,377</u>	<u>38,343</u>
<u><u>383,324</u></u>	<u><u>292,386</u></u>	<u><u>90,938</u></u>

City of Runnells

Notes to Other Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented 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 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. There were no budget amendments during the year.

During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the health and social services function.

Supplementary Information

Schedule 1

City of Runnells

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

As of and for the year ended June 30, 2012

	Special Revenue					Total
	I-Jobs	Employee Benefits	Community Disaster Grant	Centennial Celebration	Runnells Area Park Corporation	
Receipts:						
Property tax	\$ -	6,728	-	-	-	6,728
Other city tax	-	215	-	-	-	215
Use of money and property	-	-	-	44	-	44
Miscellaneous	-	-	-	-	5,302	5,302
Total receipts	-	6,943	-	44	5,302	12,289
Disbursements:						
Operating:						
Public works	1,683	843	-	-	-	2,526
Culture and recreation	-	943	-	-	1,005	1,948
General government	-	2,247	-	-	-	2,247
Total disbursements	(1,683)	4,033	-	-	1,005	6,721
Net change in cash balances	(1,683)	2,910	-	44	4,297	5,568
Cash balances beginning of year	2,158	-	199	1,124	3,098	6,579
Cash balances end of year	\$ 475	2,910	199	1,168	7,395	12,147
Cash Basis Fund Balances						
Restricted for other purposes	\$ 475	2,910	199	1,168	7,395	12,147

See accompanying independent auditor's report.

City of Runnels

City of Runnells
Schedule of Indebtedness
Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue bonds:			
Sewer	Nov 1, 1982	5.00%	\$ 303,300
Bank loan:			
Property mortgage	Nov 10, 2008	5.50%	\$ 35,000
Installment purchase agreement:			
Mower	Jan 21, 2011	9.52%	\$ 13,500

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
147,481	-	10,942	136,539	7,041
16,081	-	1,555	14,526	860
10,274	-	2,167	8,107	1,070

Schedule 3

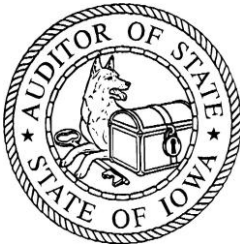
City of Runnells

Bond Maturities

June 30, 2012

Year	Sewer Revenue Bonds	
	Issued Nov 1, 1982	
Ending	Interest	
June 30,	Rates	Amount
2013	5.00%	\$ 11,165
2014	5.00	11,714
2015	5.00	12,300
2016	5.00	12,908
2017	5.00	13,567
2018	5.00	14,239
2019	5.00	14,951
2020	5.00	15,695
2021	5.00	16,485
2022	5.00	13,515
Total		<u>\$ 136,539</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 Runnells, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 6, 2012. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011. 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

The management of the City of Runnells is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Runnells' 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 an opinion on the effectiveness of the City of Runnells' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Runnells' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Runnells' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (B) through (H) to be significant deficiencies.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the City of Runnells' 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 which 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, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

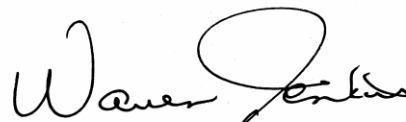
The City of Runnells' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Runnells' responses and, accordingly, we express no opinion on them.

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 Runnells and other parties to whom the City of Runnells may report and 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 Runnells 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 6, 2012

City of Runnells

Schedule of Findings

Year ended June 30, 2012

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important element in designing internal controls to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. One person has control over each of the following areas:
- (1) Accounting system – performing all general accounting functions and having custody of assets.
 - (2) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
 - (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
 - (4) Long-term debt – recording, reconciling and performing cash functions.
 - (5) Receipts – collecting, depositing, journalizing, posting and reconciling.
 - (6) Disbursements – purchasing, check writing, recording and reconciling.
 - (7) Payroll – preparation and distribution.
 - (8) Computer systems – performing all general accounting functions and controlling all data input and output.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Bank reconciliations should be reviewed by an independent person and the independent reviewer should sign or initial and date the reconciliation as evidence of the review.

Response – The City will be reviewing our controls to obtain the maximum control possible and have all the reviews to include initials and date of review.

Conclusion – Response accepted.

City of Runnells

Schedule of Findings

Year ended June 30, 2012

- (B) Monthly Bank Reconciliations - Although monthly bank reconciliations were prepared, the reconciliations included only the checking accounts and did not include investments, savings accounts, savings bonds and other reconciling items necessary to reconcile with the monthly financial reports.

Recommendation - To provide better control over financial transactions and overall accountability, monthly bank reconciliations should be prepared to include all checking accounts, investments, savings accounts, savings bonds and reconciling items.

Response - We are changing the format showing all accounts and reconciling items.

Conclusion - Response accepted.

- (C) Investments - A detailed record of investment transactions was not maintained. Interest earned on investments which is added to the investment was not received or posted to the accounting records.

Recommendation - A detailed record of investment transactions by fund should be maintained on a current basis. This record should include investment number, purchase date, redemption date, interest rate and amount of principal and interest. All interest earned should be recorded in the accounting records.

Response - This has now been added to our financial system and all interest is recorded.

Conclusion - Response accepted.

- (D) Disbursements - Certain invoices were not properly cancelled to prevent possible duplicate payment.

Recommendation - All paid invoices should be marked or stamped paid with the date of payment to aid in preventing possible duplicate payment.

Response - A paid stamp will be purchased to help resolve this issue.

Conclusion - Response accepted.

- (E) Credit/Debit Cards - The City has credit and debit cards for use by employees while on City business. The City has not adopted a formal policy to regulate the use of credit and debit cards and to establish procedures for the proper accounting of credit and debit card charges. Additionally, supporting documentation was not always available to support credit or debit card charges.

Recommendation - The City should adopt a formal written policy regulating the use of City credit and debit cards. The policy, at a minimum, should address who controls credit and debit cards, who is authorized to use credit and debit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges. Supporting documentation for all credit and debit card charges should be retained.

City of Runnells

Schedule of Findings

Year ended June 30, 2012

Response – The City will work on establishing a policy for all credit/debit cards.

Conclusion – Response accepted.

- (F) Computer Systems – During our review of internal control, the existing control activities in the City's computer systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City's computer systems were noted.

The City does not have written policies for:

- Logging off unattended computers.
- Passwords - including password privacy and confidentiality, requiring passwords to be changed every 60 to 90 days and requiring passwords to be a minimum of eight characters long.
- Complete system backup done at fiscal year end.
- Backups for PC hard drives.
- The use of an anti-virus program on computers.
- Ensuring only software licensed to the City is installed on computers.
- Internet usage.
- Personal use of computer equipment and software.

Additionally, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over its computer systems. A written disaster recovery plan should also be developed.

Response – A written policy will be put into place with a disaster recovery plan attached.

Conclusion – Response accepted.

- (G) Accounting Procedures Manual – We encourage the development of office procedures and standardized accounting manuals for the City. In addition, we encourage obtaining or developing user manuals/help guides for the accounting software the City utilizes. These manuals and guides should provide the following benefits:

- (1) Aid in training additional or replacement personnel.

City of Runnells

Schedule of Findings

Year ended June 30, 2012

- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or similar, situations arise.
- (4) Improve the efficiency and understanding of steps to perform for running monthly financial reports and retrieving management information.

Recommendation – Office procedures and an accounting manual should be developed for the City.

Response – The City has started an office manual to help with the efficiency and running of the monthly financial reports.

Conclusion – Response accepted.

- (H) Runnells Area Park Co. (RAPCO) – One important element in designing internal controls to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. One individual is responsible for all receipt and disbursement functions, as well as reconciling the bank account. Additionally, there is no evidence of review or approval of disbursements or independent review of the bank reconciliation.

In addition to lack of segregation of duties, disbursements were not supported by proper documentation, including checks written to cash for refreshments for senior activities at the Community Center for which supporting documentation was not available.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, Runnells Area Park Co. should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Bank reconciliations should be reviewed by an independent person and the independent reviewer should sign or initial and date the reconciliation as evidence of the review. Proper supporting documentation should be retained for all disbursements.

Response – RAPCO will be electing new officers and will make a point of reviewing controls to obtain the maximum control possible. Reviews will include initials and date of review. Supporting documentation will be retained for all disbursements.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Runnells

Schedule of Findings

Year ended June 30, 2012

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amount budgeted in the health and social services function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City will make sure budgets are being amended when needed.

Conclusion – Response accepted.

- (2) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Beth Sagar	Flower arrangements for employee	\$ 35
Southeast Polk High School	Donation to post-prom committee	50

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation of public purpose.

Response – We will make sure all disbursements have proper documentation and authorization putting this all into a City policy.

Conclusion – Response accepted.

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

City of Runnells

Schedule of Findings

Year ended June 30, 2012

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

Minutes of City Council proceedings, including a summary of receipts, were not always published as required by Chapter 372.13(6) of the Code of Iowa. Also, the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and should publish minutes and annual individual salaries as required.

Response – We have started doing this and will continue to do this including publishing annual gross salaries.

Conclusion – Response accepted.

- (7) Deposits and Investments – The City has not adopted a written investment policy in accordance with the provisions of Chapter 12B.10 of the Code of Iowa. In addition, certain depository institutions used by the City were not approved by resolution as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should establish a written investment policy which complies with the provisions of Chapter 12B.10 of the Code of Iowa. Additionally, all depository institutions utilized by the City should be approved by resolution as required by Chapter 12C.2 of the Code of Iowa.

Response – The City will establish an investment policy and adopt a depository resolution.

Conclusion – Response accepted.

- (8) Revenue Bonds – Except as follows, no instances of non-compliance with the sewer revenue bond requirements were noted:

The City has not created a sewer bond sinking account and made the required monthly transfers to the account.

In addition, the City has not complied with the sewer revenue bond provisions which require the City to cause the books and accounts to be audited annually.

Recommendation – The City should review the bond provisions and comply with the requirements.

Response – The City will be looking into the matter and setting up the appropriate accounts.

Conclusion – Response acknowledged. The City should also ensure compliance with the annual audit requirement included in the bond resolution.

City of Runnells

Schedule of Findings

Year ended June 30, 2012

- (9) Tax Increment Financing (TIF) – In 2000, the City entered into a development agreement for the Park View Estates subdivision. The City agreed to reimburse the developer 80% of TIF receipts for a ten year period, with the total reimbursement not to exceed the developer’s actual infrastructure costs.

The development agreement also stated the remaining 20% of TIF collections received by the City may be used by the City for any purpose. The statement in the agreement is not in compliance with Chapter 403.19 of the Code of Iowa since the City is only allowed to certify and use TIF receipts for outstanding TIF debt. There is no provision within Chapter 403 of the Code of Iowa allowing the City to use TIF receipts “for any purpose”.

At June 30, 2012, the balance in the City’s Special Revenue, Urban Renewal Tax Increment Fund of \$103,091 exceeded the City’s outstanding TIF debt of \$77,652, resulting in an excess balance of \$25,042. Based on the City’s fiscal year 2013 budget, the City will receive an estimated additional \$50,827 of TIF receipts and will pay \$397 in interest on the outstanding bank loan during fiscal year 2013, which will result in an excess balance estimated at \$75,869 at June 30, 2013.

Effective July 1, 2012, House File 2460 requires any balance remaining in a TIF Fund created under section 403.19 of the Code of Iowa to be transferred to the County for allocation to the funds of the respective taxing districts.

Chapter 403.22 of the Code of Iowa requires the City to provide assistance for low and moderate income family housing (LMI) for urban renewal projects involving public improvements related to housing and residential development. This requirement appears to apply to the Park View Estates development. As of June 30, 2012, the City has not provided assistance for low and moderate income family housing, as required.

Recommendation – The City should consult TIF legal counsel to determine disposition of these matters.

Response – The City will contact TIF legal counsel to resolves these matters. If we are able to keep the funds, transfers will be made to other funds.

Conclusion – Response acknowledged. In accordance with Chapter 403 of the Code of Iowa, TIF funds can only be used for TIF debt. Transfer of the excess balance in the Special Revenue, Urban Renewal Tax Increment Fund to other City funds would not be allowed since the City’s TIF debt will be paid in full by June 30, 2013 unless the transfers are used to pay disbursements which meet the LMI requirements.

City of Runnells
Schedule of Findings
Year ended June 30, 2012

(10) Other Information Required by the Sewer Revenue Bond Resolution

Insurer	Description	Amount	Expiration Date
Employers Mutual Casualty Company	Commercial property: Blanket on buildings	\$ 1,467,940	Apr 1, 2013
Employers Mutual Casualty Company	General liability: Each occurrence Aggregate Damage to premises rented to City Medical expense Personal and advertising injury	1,000,000 2,000,000 300,000 5,000 1,000,000	Apr 1, 2013
Employers Mutual Casualty Company	Commercial Inland Marine: Contractors' equipment Contractors' equipment - leased or rented Electronic data processing	31,000 25,000 57,500	Apr 1, 2013
Employers Mutual Casualty Company	Commercial auto: Liability Auto medical Uninsured motorists Underinsured motorists	1,000,000 2,000 1,000,000 1,000,000	Apr 1, 2013
Employers Mutual Casualty Company	Linebacker: Each loss and in aggregate	1,000,000	Apr 1, 2013
Employers Mutual Casualty Company	Workers' compensation: Each accident Each employee Policy limit	500,000 500,000 500,000	Apr 1, 2013
Employers Mutual Casualty Company	Commercial umbrella: Each occurrence Personal and advertising injury Aggregate	2,000,000 2,000,000 2,000,000	Apr 1, 2013
Employers Mutual Casualty Company	Government crime: Employee theft Forgery or alteration Computer fraud Funds transfer fraud	100,000 10,000 50,000 50,000	Apr 1, 2013

Statistical Information:

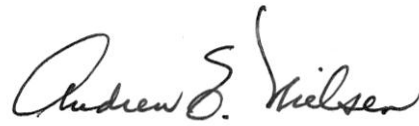
Description	Amount
Customers served at June 30, 2012	191
Sewer rates in effect at June 30, 2012:	
Des Moines Water Works:	
Per every 1,000 gallons	\$ 5.12
Sewer availability	6.00
Runnells sewer availability	18.50

City of Runnells

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Jenny M. Podrebarac, Senior Auditor
Jamie T. Reuter, Staff Auditor
Jessica L. Barloon, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State