



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

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Mary Mosiman, CPA  
Auditor of State

NEWS RELEASE

FOR RELEASE

May 23, 2013

Contact: Andy Nielsen  
515/281-5834

The Office of Auditor of State today released an audit report on the City of Sully, Iowa.

The City's receipts totaled \$923,057 for the year ended June 30, 2012. The receipts included \$243,737 in property tax, \$92,636 from tax increment financing, \$63,606 from local option sales tax, \$322,120 from charges for service, \$142,502 from operating grants, contributions and restricted interest, \$3,467 from unrestricted interest on investments, \$2,489 from other general receipts and \$52,500 from capital asset sales.

Disbursements for the year totaled \$898,317, and included \$144,673 for debt service, \$126,225 for general government and \$90,911 for public works. Disbursements for business type activities totaled \$355,035.

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/1221-0473-B00F.pdf>.

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**CITY OF SULLY**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2012**

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**City of Sully**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2012)</b>		
Gordon Yarrington	Mayor	Jan 2012
Chad Fikse	Council Member	Jan 2012
Doug Huyser	Council Member	Jan 2012
Nathan Whitten	Council Member	(Resigned)
Brent Vander Molen	Council Member	Jan 2014
Wesley Van Wyk	Council Member	Jan 2014
Lori Zylstra (elected Nov 2011)	Council Member	Jan 2014
Barbra Maasdam	City Clerk	Indefinite
Caldwell & Brierly, PLLC	Attorneys	Indefinite
<b>(After January 2012)</b>		
Gordon Yarrington	Mayor	Jan 2014
Brent Vander Molen	Council Member	Jan 2014
Wesley Van Wyk	Council Member	Jan 2014
Lori Zylstra	Council Member	Jan 2014
Chad Fikse	Council Member	Jan 2016
RJ Van Dyke	Council Member	Jan 2016
Barbra Maasdam	City Clerk/Treasurer	Indefinite
Caldwell & Brierly, PLLC	Attorneys	Indefinite

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Mary Mosiman, CPA  
Auditor of State

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 Sully, 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 Sully's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as noted 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.

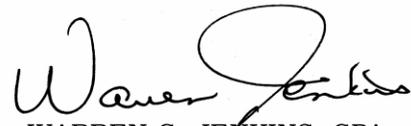
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance as of 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 Sully 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 April 23, 2013 on our consideration of the City of Sully'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 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 Sully's basic financial statements. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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 additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, 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 Sully's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 30 through 32 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.

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

April 23, 2013

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The City of Sully 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 \$59,000.
- The cash basis net assets of the City's business type activities decreased approximately \$34,000.

### **USING THIS ANNUAL REPORT**

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide 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 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, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system and garbage. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

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

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds and the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water, Sewer and Garbage Funds, considered to be major funds of the City. The City also has an Internal Service Fund, an accounting device used to accumulate and allocate costs internally among the City's various functions.

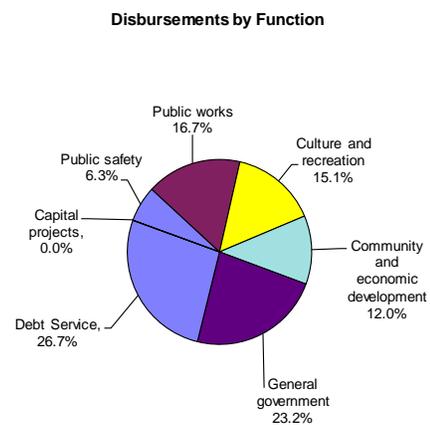
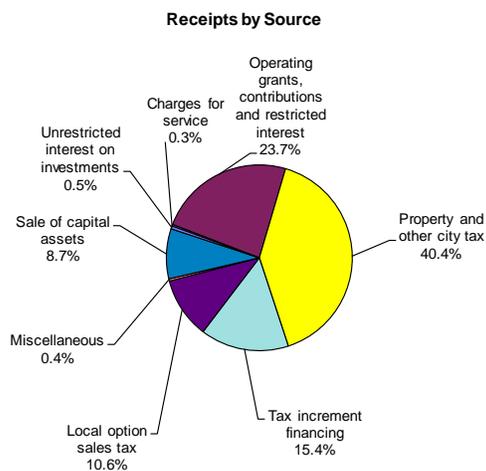
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

## 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 \$59,145 from a year ago, from \$346,841 to \$405,986. 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	\$ 1,810
Operating grants, contributions and restricted interest	142,502
General receipts:	
Property and other city tax	243,737
Tax increment financing	92,636
Local option sales tax	63,606
Unrestricted interest on investments	3,147
Sale of capital assets	52,500
Miscellaneous	2,489
Total receipts	<u>602,427</u>
Disbursements:	
Public safety	34,154
Public works	90,911
Culture and recreation	82,184
Community and economic development	65,043
General government	126,225
Debt service	144,673
Capital projects	92
Total disbursements	<u>543,282</u>
Change in cash basis net assets	59,145
Cash basis net assets beginning of year	<u>346,841</u>
Cash basis net assets end of year	<u>\$ 405,986</u>



The cash basis net assets of the City's governmental activities increased \$59,145 due, in part, to a public works facility project completed in the prior fiscal year.

Net Assets of Business Type Activities	
	Year Ended June 30, 2012
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 152,259
Sewer	133,459
Garbage	34,592
General receipts:	
Unrestricted interest on investments	320
Total receipts	<u>320,630</u>
Disbursements:	
Water	157,932
Sewer	165,819
Garbage	31,284
Total disbursements	<u>355,035</u>
Change in cash basis net assets	(34,405)
Cash basis net assets beginning of year	<u>373,396</u>
Cash basis net assets end of year	<u>\$ 338,991</u>

The business type activities cash basis net assets decreased \$34,405 from a year ago, decreasing from \$373,396 to \$338,991, due primarily to the City beginning a sewer improvement project in fiscal year 2012.

### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Sully completed the year, its governmental funds reported a combined cash balance of \$318,242, an increase of \$63,056 over last year's total of \$255,186. The following are reasons for significant changes in cash balances, if any, of the major funds from the prior year.

- The General Fund cash balance decreased \$7,562 from the prior year to \$105,979, primarily due to an increase in grants made to Sully Development, Inc. to purchase property.
- The Special Revenue, Road Use Tax Fund cash balance increased \$12,090 over the prior year to \$103,482. The change is due primarily to receipts increasing at a faster pace than disbursements.
- The Special Revenue, Tax Increment Financing Fund cash balance decreased \$1,665 to a deficit of \$6,004. The decrease was due to scheduled rebate payments which began in fiscal year 2012.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$13,424, from \$62,754 to \$76,178. The increase was primarily due to the City continuing to spend less local option sales tax than was collected.
- The Special Revenue, Economic Development Fund cash balance increased \$12,046 over the prior year, from \$25,903 to \$37,949. The fund received payments on revolving loans but had no current year disbursements.

- The Debt Service Fund cash balance increased nominally, or \$219, during fiscal year 2012.
- The Capital Projects Fund cash balance increased \$34,504 during the fiscal year to a zero balance at June 30, 2012. The public works facility project was completed in the prior year, thereby eliminating the need for this fund.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance decreased \$3,847 to \$120,480. The decrease in the cash balance is primarily due to a slight decrease in water meter sales and costs associated with a hydrant and valve replacement project.
- The Enterprise, Sewer Fund cash balance decreased \$29,394 to \$100,502. The decrease is primarily due to costs related to a new sewer improvement project.
- The Enterprise, Garbage Fund cash balance increased \$3,308 to \$34,880. The increase is primarily due to fewer expenses incurred during fiscal year 2012.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 14, 2012, primarily to provide for additional disbursements in the community and economic development function for a grant to Sully Development, Inc. to purchase property.

Total receipts were \$98,608 less than the amended budget. Intergovernmental receipts were \$53,304 less than anticipated, primarily due to budgeting for a revolving loan which did not occur as planned during fiscal year 2012. Charges for service receipts were \$50,293 less than anticipated due to less water and sewer usage than expected.

Total disbursements were \$231,142 less than the amended budget. Disbursements in business type activities were under budget \$137,882, primarily due to the timing of payments for a sewer improvement project. Disbursements in the public works, community and economic development and general government functions were also below budget due to less costs than anticipated.

Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted.

**DEBT ADMINISTRATION**

At June 30, 2012, the City had \$999,000 of bonds and notes outstanding compared to \$1,188,000 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2012	2011
General obligation notes	\$ 575,000	645,000
Urban renewal tax increment revenue note	25,000	75,000
Revenue bonds	399,000	468,000
Total	\$ 999,000	1,188,000

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$600,000, plus tax increment financing rebate agreements of \$56,211 and net of cash on hand to service debt of \$658, totals \$655,553 and is significantly below the City's constitutional debt limit of approximately \$2.16 million.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of Sully's elected and appointed officials considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities. Circumstances which could significantly affect the City's financial health in the future are as follows:

The Community Center was constructed in 1994. Some general maintenance and updating, both inside and out, will be required over the next few years.

The City has plans to make park improvements to both the central park and the ballpark as funding becomes available.

The revolving loan fund (RLF) program was established to assist local businesses with financing for start-up or expansion. The RLF Loan Committee is looking to approve a loan or loans during the fiscal year.

On March 12, 2012, the City approved a contract for sanitary and storm sewer improvements.

The City plans to replace several water hydrants and water distribution line valves.

## **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 Barbra Maasdam, City Clerk/Treasurer, PO Box 247, Sully, Iowa 50251.

## **Basic Financial Statements**

City of Sully

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
<b>Functions/Programs:</b>			
Governmental activities:			
Public safety	\$ 34,154	1,286	-
Public works	90,911	-	83,989
Culture and recreation	82,184	274	38,995
Community and economic development	65,043	-	12,046
General government	126,225	250	376
Debt service	144,673	-	-
Capital projects	92	-	7,096
Total governmental activities	543,282	1,810	142,502
Business type activities:			
Water	157,932	152,259	-
Sewer	165,819	133,459	-
Garbage	31,284	34,592	-
Total business type activities	355,035	320,310	-
Total	\$ 898,317	322,120	142,502
<b>General Receipts:</b>			
Property and other city tax levied for:			
General purposes			
Debt service			
Tax increment financing			
Local option sales tax			
Unrestricted interest on investments			
Sale of capital assets			
Miscellaneous			
Total general receipts			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
<b>Cash Basis Net Assets</b>			
Restricted:			
Streets			
Economic development purposes			
Local option sales tax purposes			
Debt service			
Unrestricted			
<b>Total cash basis net assets</b>			

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Primary Government		
Governmental Activities	Business Type Activities	Total
(32,868)	-	(32,868)
(6,922)	-	(6,922)
(42,915)	-	(42,915)
(52,997)	-	(52,997)
(125,599)	-	(125,599)
(144,673)	-	(144,673)
7,004	-	7,004
(398,970)	-	(398,970)
-	(5,673)	(5,673)
-	(32,360)	(32,360)
-	3,308	3,308
-	(34,725)	(34,725)
(398,970)	(34,725)	(433,695)
\$ 180,799	-	180,799
62,938	-	62,938
92,636	-	92,636
63,606	-	63,606
3,147	320	3,467
52,500	-	52,500
2,489	-	2,489
458,115	320	458,435
59,145	(34,405)	24,740
346,841	373,396	720,237
\$ 405,986	338,991	744,977
\$ 103,482	-	103,482
37,949	-	37,949
76,178	-	76,178
658	67,123	67,781
187,719	271,868	459,587
\$ 405,986	338,991	744,977

City of Sully

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

As of and for the year ended June 30, 2012

	Special Revenue			
	General	Road Use Tax	Tax Increment Financing	Local Option Sales Tax
<b>Receipts:</b>				
Property tax	\$ 176,916	-	-	-
Tax increment financing	-	-	92,636	-
Other city tax	3,882	-	-	63,606
Licenses and permits	1,536	-	-	-
Use of money and property	6,642	-	-	-
Intergovernmental	28,376	79,844	-	-
Miscellaneous	13,641	-	-	-
Total receipts	<u>230,993</u>	<u>79,844</u>	<u>92,636</u>	<u>63,606</u>
<b>Disbursements:</b>				
Operating:				
Public safety	34,154	-	-	-
Public works	22,204	67,754	-	-
Culture and recreation	57,154	-	-	21,304
Community and economic development	52,696	-	12,347	-
General government	97,347	-	-	28,878
Debt service	-	-	81,954	-
Capital projects	-	-	-	-
Total disbursements	<u>263,555</u>	<u>67,754</u>	<u>94,301</u>	<u>50,182</u>
Excess (deficiency) of receipts over (under) disbursements	(32,562)	12,090	(1,665)	13,424
Other financing sources:				
Sale of capital assets	25,000	-	-	-
Change in cash balances	(7,562)	12,090	(1,665)	13,424
Cash balances beginning of year	113,541	91,392	(4,339)	62,754
Cash balances end of year	<u>\$ 105,979</u>	<u>103,482</u>	<u>(6,004)</u>	<u>76,178</u>
<b>Cash Basis Fund Balances</b>				
Restricted for:				
Streets	\$ -	103,482	-	-
Economic development purposes	-	-	-	-
Local option sales tax purposes	-	-	-	76,178
Debt service	-	-	-	-
Unassigned	105,979	-	(6,004)	-
Total cash basis fund balances	<u>\$ 105,979</u>	<u>103,482</u>	<u>(6,004)</u>	<u>76,178</u>

See notes to financial statements.

Economic Development	Debt Service	Capital Projects	Total
-	61,753	-	238,669
-	-	-	92,636
-	1,185	-	68,673
-	-	-	1,536
12,046	-	-	18,688
-	-	-	108,220
-	-	7,096	20,737
12,046	62,938	7,096	549,159
-	-	-	34,154
-	-	-	89,958
-	-	-	78,458
-	-	-	65,043
-	-	-	126,225
-	62,719	-	144,673
-	-	92	92
-	62,719	92	538,603
12,046	219	7,004	10,556
-	-	27,500	52,500
12,046	219	34,504	63,056
25,903	439	(34,504)	255,186
37,949	658	-	318,242
-	-	-	103,482
37,949	-	-	37,949
-	-	-	76,178
-	658	-	658
-	-	-	99,975
37,949	658	-	318,242

City of Sully

Reconciliation of the Statement of Cash  
Receipts, Disbursements and Changes in Cash Balances  
to the Statement of Activities and Net Assets –  
Governmental Funds

As of and for the year ended June 30, 2012

<b>Total governmental funds cash balances (page 17)</b>	\$ 318,242
<b><i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i></b>	
The Internal Service Fund is used by management to charge the costs of equipment to individual funds. A portion of the assets of the Internal Service Fund are included in governmental activities in the Statement of Activities and Net Assets.	<u>87,744</u>
<b>Cash basis net assets of governmental activities (page 15)</b>	<u><u>\$ 405,986</u></u>
<b>Change in cash balances (page 17)</b>	\$ 63,056
<b><i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i></b>	
The Internal Service Fund is used by management to charge the costs of equipment to individual funds. A portion of the change in net assets of the Internal Service Fund is reported with governmental activities in the Statement of Activities and Net Assets.	<u>(3,911)</u>
<b>Change in cash basis net assets of governmental activities (page 15)</b>	<u><u>\$ 59,145</u></u>

See notes to financial statements.

City of Sully

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

As of and for the year ended June 30, 2012

	Enterprise				Internal
	Water	Sewer	Garbage	Total	Service Equipment
Operating receipts:					
Charges for service	\$ 141,543	132,610	33,814	307,967	-
Reimbursements from operating funds	-	-	-	-	22,100
Miscellaneous	10,716	849	778	12,343	-
Total operating receipts	152,259	133,459	34,592	320,310	22,100
Operating disbursements:					
Governmental activities:					
Public works	-	-	-	-	3,252
Culture and recreation	-	-	-	-	12,726
Business type activities	115,163	67,864	31,284	214,311	15,272
Total operating disbursements	115,163	67,864	31,284	214,311	31,250
Excess (deficiency) of operating receipts over (under) operating disbursements	37,096	65,595	3,308	105,999	(9,150)
Non-operating receipts (disbursements)					
Interest on investments	170	150	-	320	767
Debt service	(37,113)	(46,161)	-	(83,274)	-
Capital outlay	(4,000)	(48,978)	-	(52,978)	-
Net non-operating receipts (disbursements)	(40,943)	(94,989)	-	(135,932)	767
Change in cash balances	(3,847)	(29,394)	3,308	(29,933)	(8,383)
Cash balances beginning of year	124,327	129,896	31,572	285,795	179,256
Cash balances end of year	\$ 120,480	100,502	34,880	255,862	170,873
<b>Cash Basis Fund Balances</b>					
Restricted for debt service	\$ 53,071	14,052	-	67,123	-
Unrestricted	67,409	86,450	34,880	188,739	170,873
Total cash basis fund balances	\$ 120,480	100,502	34,880	255,862	170,873

See notes to financial statements.

City of Sully

Reconciliation of the Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
to the Statement of Activities and Net Assets –  
Proprietary Funds

As of and for the year ended June 30, 2012

**Total enterprise funds cash balances (page 19)** \$ 255,862

***Amounts reported for business type activities in the Statement of Activities  
and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of equipment to individual funds. A portion of the assets of the Internal Service Fund are included in business type activities in the Statement of Activities and Net Assets.

83,129

**Cash basis net assets of business type activities (page 15)** \$ 338,991

**Change in cash balances (page 19)** \$ (29,933)

***Amounts reported for business type activities in the Statement of Activities  
and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of equipment to individual funds. A portion of the change in net assets of the Internal Service Fund is reported with business type activities in the Statement of Activities and Net Assets.

(4,472)

**Change in cash basis net assets of business type activities (page 15)** \$ (34,405)

See notes to financial statements.

City of Sully

Notes to Financial Statements

June 30, 2012

**(1) Summary of Significant Accounting Policies**

The City of Sully is a political subdivision of the State of Iowa located in Jasper County. It was first incorporated in 1901 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, sewer utilities and garbage collection for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Jasper County Assessor's Conference Board, Jasper County Emergency Management Agency and Jasper County Joint E911 Service Board. The City is also a member of the Newton Sanitary Landfill, established pursuant to Chapter 28E of the Code of Iowa, and obtains fire and ambulance service through a 28E agreement with the Sully Rural Fire District and Jasper and Mahaska Counties.

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:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or are 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.

The City reports the following major governmental funds:

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

Special Revenue:

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

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

The Local Option Sales Tax Fund is used to account for local sales and services tax receipts and related disbursements.

The Economic Development Fund is used to account for funds set aside for economic development projects.

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

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.

The Enterprise, Garbage Fund accounts for the operation and maintenance of garbage collection in the City.

The City also reports the following proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

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 incurred, 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-restricted 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.

**(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**

Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes, the urban renewal tax increment revenue note and revenue bonds are as follows:

Year Ending June 30,	General Obligation Notes		Urban Renewal Tax Increment Revenue Note		Revenue Bonds		Total	
	Principal	Interest	Principal	Principal	Interest	Principal	Interest	
2013	\$ 71,000	22,078	25,000	70,000	11,970	166,000	34,048	
2014	72,000	19,380	-	72,000	9,870	144,000	29,250	
2015	78,000	16,594	-	73,000	7,710	151,000	24,304	
2016	79,000	13,486	-	76,000	5,520	155,000	19,006	
2017	25,000	10,280	-	35,000	3,240	60,000	13,520	
2018-2022	144,000	39,758	-	73,000	3,300	217,000	43,058	
2023-2025	106,000	9,904	-	-	-	106,000	9,904	
Total	\$ 575,000	131,480	25,000	399,000	41,610	999,000	173,090	

The Code of Iowa requires principal and interest on general obligation notes be paid from the Debt Service Fund. However, \$31,954 of general obligation note principal and interest was paid from the Special Revenue, Tax Increment Financing Fund during the year.

General Obligation Notes

On August 15, 2001, the City issued a general obligation corporate purpose note for \$425,000 to finance a street improvement project. The note is to be repaid in 15 annual payments of \$30,000, plus interest at 5.10% per annum. During the year ended June 30, 2012, the City paid principal of \$30,000 and interest of \$7,649 on the note, leaving a principal balance of \$120,000.

On August 24, 2006, the City issued a general obligation corporate purpose note for \$210,000 for the purpose of carrying out a housing development project. The note is to be repaid in eight annual payments of \$20,000 followed by two annual payments of \$25,000, plus interest at 4.625% per annum. During the year ended June 30, 2012, the City paid principal of \$20,000 and interest of \$5,070 on the note, leaving a principal balance of \$90,000.

On June 23, 2010, the City issued a general obligation corporate purpose note for \$400,000 to finance a new public works facility. The note is to be repaid in fifteen annual payments starting at \$15,000 and increasing incrementally to \$37,000 in the final year, plus interest ranging from 3.00% to 4.75% per annum. During the year ended June 30, 2012, the City paid principal of \$20,000 and interest of \$11,954 on the note, leaving a principal balance of \$365,000.

#### Urban Renewal Tax Increment Revenue Note

On January 23, 2004, the City issued an interest-free \$450,000 urban renewal tax increment revenue note for the purpose of defraying a portion of the costs of carrying out an urban renewal project in the City. The bonds are payable solely from tax increment financing (TIF) receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Tax Increment Financing Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100% of the debt requirements over the life of the note. The note is not a general obligation of the City, but the debt is subject to the constitutional debt limitation of the City. During the year ended June 30, 2012, the City paid principal of \$50,000 on the note, leaving a principal balance of \$25,000.

#### Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$550,000 of water revenue bonds issued in February 2000. Proceeds from the bonds provided financing for water improvements. The notes are payable solely from water customer net receipts and are payable through 2019. Annual principal and interest payments on the bonds are expected to require 100% of net receipts. The total principal and interest remaining to be paid on the bonds is \$266,370. For the current year, principal and interest paid and total customer net receipts were \$36,980 and \$37,096, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$607,000 of sewer revenue bonds issued in June 1995. Proceeds from the bonds provided financing for the construction of improvements to the sewer system. The bonds are payable solely from sewer customer net receipts and are payable through 2016. Annual principal and interest payments on the bonds are expected to require less than 70% of net receipts. The total principal remaining to be paid on the bonds is \$174,240. For the current year, principal and interest paid and total customer net receipts were \$46,060 and \$67,864, respectively.

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

- (a) The bonds will only be redeemed from the future earnings of the utility activity and the bond holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to separate water and sewer revenue bond sinking accounts within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Enterprise, Water Fund user rates shall be established at a level which produce and maintain net receipts at a level not less than 110% of the amount of principal and interest on the water revenue bonds falling due in the same year.
- (d) The City shall establish, impose, adjust and provide for the collection of rates to be charged to customers of the sewer utility to provide a balance of net receipts equal to at least 100% of the principal and interest on all the bonds due in each fiscal year.
- (e) Sufficient monthly transfers shall be made to a separate sewer reserve account within the Enterprise, Sewer Fund until a specified minimum balance is reached. The minimum required balance at June 30, 2012 is \$16,200. This account is restricted for the purpose of paying for principal and interest on the bonds should the sinking fund be insufficient for this purpose.

The City's net Enterprise, Water Fund receipts for the year ended June 30, 2012 were less than the required 110% of principal and interest on bonds falling due during the year.

The City has not made the required transfers to the sewer reserve account to bring the balance to the required minimum.

#### **(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.

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. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2012, was \$8,679, equal to the required contribution.

#### **(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid.

The City's approximate liability for earned vacation payable to employees at June 30, 2012, primarily relating to the General Fund, was approximately \$2,900. This liability has been computed based on rates of pay in effect at June 30, 2012.

**(6) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$16,628 during the year ended June 30, 2012.

**(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.

**(8) Rebate Agreements**

The City has entered into three development agreements to assist in urban renewal projects by rebating incremental property tax paid by the companies with respect to the improvements made as set forth in those agreements. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the companies will be rebated beginning with the tax year in which the property tax on the completed value of the improvements is first paid. The period of years and total amount to be rebated differ for each company and are specified in each development agreement. The total to be paid by the City under the three agreements is not to exceed \$65,561. The actual amount rebated during the year ended June 30, 2012 and to date under these agreements is \$12,347.

**(9) Economic Development Fund**

During the year ended June 30, 2010, the City received a rural enterprise grant from the U.S. Department of Agriculture to create an economic development loan program. The funds were subsequently loaned to businesses within the City. The loans are accounted for in the Special Revenue, Economic Development Fund. Active loans during the year ended June 30, 2012 carry an interest rate of 3.25% per annum and have terms ranging from five to seven years. At June 30, 2012, there were two active loans with a total outstanding principal balance of \$47,261.

**(10) Deficit Balance**

The Special Revenue, Tax Increment Financing Fund had a deficit fund balance of \$6,004 at June 30, 2012. The deficit will be eliminated through future tax increment financing collections.

**(11) Contract Commitment**

On March 12, 2012, the City entered into a contract totaling \$152,313 for a sanitary and storm sewer improvement project. The City intends to fund the project through issuance of a general obligation sewer improvement note. At June 30, 2012, costs of \$48,978 have been incurred and paid on the project. The remaining contract will be paid as work on the project progresses.

**(12) Subsequent Event**

On July 10, 2012, the City issued a general obligation sewer improvement note for \$150,000 to fund a sewer improvement project. The note is payable over five years and bears interest at 2.05% per annum.

**City of Sully**

## **Other Information**

City of Sully  
 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	\$ 238,669	-	-
Tax increment financing	92,636	-	-
Other city tax	68,673	-	-
Licenses and permits	1,536	-	-
Use of money and property	18,688	1,087	767
Intergovernmental	108,220	-	-
Charges for service	-	307,967	-
Miscellaneous	20,737	34,443	22,100
Total receipts	<u>549,159</u>	<u>343,497</u>	<u>22,867</u>
Disbursements:			
Public safety	34,154	-	-
Public works	89,958	3,252	3,252
Culture and recreation	78,458	12,726	12,726
Community and economic development	65,043	-	-
General government	126,225	-	-
Debt service	144,673	-	-
Capital projects	92	-	-
Business type activities	-	365,835	15,272
Total disbursements	<u>538,603</u>	<u>381,813</u>	<u>31,250</u>
Excess (deficiency) of receipts over (under) disbursements	10,556	(38,316)	(8,383)
Other financing sources (uses), net	52,500	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	63,056	(38,316)	(8,383)
Balances beginning of year	255,186	465,051	179,256
Balances end of year	<u>\$ 318,242</u>	<u>426,735</u>	<u>170,873</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
238,669	237,626	237,626	1,043
92,636	94,697	94,697	(2,061)
68,673	67,955	67,955	718
1,536	1,300	1,700	(164)
19,008	25,139	25,139	(6,131)
108,220	163,024	161,524	(53,304)
307,967	358,260	358,260	(50,293)
33,080	10,100	21,496	11,584
869,789	958,101	968,397	(98,608)
34,154	34,414	34,290	136
89,958	113,769	115,061	25,103
78,458	73,827	80,142	1,684
65,043	56,500	109,000	43,957
126,225	148,527	148,508	22,283
144,673	144,770	144,770	97
92	-	92	-
350,563	486,225	488,445	137,882
889,166	1,058,032	1,120,308	231,142
(19,377)	(99,931)	(151,911)	132,534
52,500	175,000	202,500	(150,000)
33,123	75,069	50,589	(17,466)
540,981	467,136	540,987	(6)
574,104	542,205	591,576	(17,472)

City of Sully

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$62,276. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

## **Supplementary Information**

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Corporate purpose	Aug 15, 2001	5.10%	\$ 425,000
Corporate purpose	Aug 24, 2006	4.625	210,000
Corporate purpose	Jun 23, 2010	3.00-4.75	400,000
Total			
Urban renewal tax increment revenue note	Jan 23, 2004	0.00%	\$ 450,000
Revenue bonds:			
Water	Feb 25, 2000	3.00%	\$ 550,000
Sewer	Jun 27, 1995	3.00	607,000
Total			

See accompanying independent auditor's report.

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Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
150,000	-	30,000	120,000	7,649
110,000	-	20,000	90,000	5,070
385,000	-	20,000	365,000	11,954
<u>\$ 645,000</u>	<u>-</u>	<u>70,000</u>	<u>575,000</u>	<u>24,673</u>
75,000	-	50,000	25,000	-
266,000	-	29,000	237,000	7,980
202,000	-	40,000	162,000	6,060
<u>\$ 468,000</u>	<u>-</u>	<u>69,000</u>	<u>399,000</u>	<u>14,040</u>

**Schedule 2**

City of Sully  
Bond and Note Maturities  
June 30, 2012

Year Ending June 30,	General Obligation Notes							Total
	Corporate Purpose		Corporate Purpose		Corporate Purpose			
	Issued August 15, 2001		Issued August 24, 2006		Issued June 23, 2010			
	Interest		Interest		Interest			
	Rates	Amount	Rates	Amount	Rates	Amount		
2013	5.10%	\$ 30,000	4.625%	\$ 20,000	3.250%	\$ 21,000	71,000	
2014	5.10	30,000	4.625	20,000	3.375	22,000	72,000	
2015	5.10	30,000	4.625	25,000	3.500	23,000	78,000	
2016	5.10	30,000	4.625	25,000	3.625	24,000	79,000	
2017		-		-	3.750	25,000	25,000	
2018		-		-	3.875	26,000	26,000	
2019		-		-	4.000	28,000	28,000	
2020		-		-	4.125	29,000	29,000	
2021		-		-	4.250	30,000	30,000	
2022		-		-	4.375	31,000	31,000	
2023		-		-	4.500	33,000	33,000	
2024		-		-	4.625	36,000	36,000	
2025		-		-	4.750	37,000	37,000	
Total		<u>\$ 120,000</u>		<u>\$ 90,000</u>		<u>\$ 365,000</u>	<u>575,000</u>	

Year Ending June 30,	Urban Renewal Tax		Revenue Bonds					Total
	Increment Revenue Note		Water		Sewer			
	Issued January 23, 2004		Issued Feb. 25, 2000		Issued June 27, 1995			
	Interest		Interest		Interest			
	Rates	Amount	Rates	Amount	Rates	Amount		
2013	3.00%	\$ 25,000	3.00%	\$ 30,000	3.00%	\$ 40,000	70,000	
2014		-	3.00	32,000	3.00	40,000	72,000	
2015		-	3.00	33,000	3.00	40,000	73,000	
2016		-	3.00	34,000	3.00	42,000	76,000	
2017		-	3.00	35,000		-	35,000	
2018		-	3.00	36,000		-	36,000	
2019		-	3.00	37,000		-	37,000	
Total		<u>\$ 25,000</u>		<u>\$ 237,000</u>		<u>\$ 162,000</u>	<u>399,000</u>	

See accompanying independent auditor's report.



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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report on 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 Sully, 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 April 23, 2013. 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 Sully is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Sully's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Sully's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Sully's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 certain deficiencies in internal control over financial reporting we consider to be material weaknesses 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 Sully's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) through (C) to be material weaknesses.

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 (D) and (E) to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sully'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 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 Sully's 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 Sully's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sully and other parties to whom the City of Sully may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Sully 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.

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

April 23, 2013

City of Sully

Schedule of Findings

Year ended June 30, 2012

**INTERNAL CONTROL DEFICIENCIES:**

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For the City, one individual has control over each of the following areas:

- (1) Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.
- (2) Cash – handling, reconciling and recording.
- (3) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
- (4) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Debt – recordkeeping, compliance and debt payment processing.
- (7) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (8) Payroll – recordkeeping, preparation and distribution.
- (9) Computer system – performing all general accounting functions and controlling all data and output.

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

Response – The City will review the matter to obtain better internal control where possible. However, being a smaller City it is not always financially feasible to add employees.

Conclusion – Response acknowledged. The City should utilize current personnel, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports. Evidence of review should be indicated by the signature or initials of the independent reviewer and the date of the review.

(B) Financial Reporting – During the audit, we identified a \$100,000 certificate of deposit not reflected in the Internal Service, Equipment Fund balance. Adjustments were subsequently made by the City to properly report this amount in the financial statements.

Recommendation – The City should develop procedures to ensure all investments, including certificates of deposit, are properly reflected in the accounting records.

Response – The fund balance has been adjusted as recommended and documentation has been provided.

Conclusion – Response accepted.

City of Sully

Schedule of Findings

Year ended June 30, 2012

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – The following were noted regarding the City’s utilities:

- Utility billings, collections and delinquent accounts were not reconciled throughout the year.
- Delinquent account listings were not printed, retained or presented to the City Council.
- Billing stubs returned by customers with their payment were not retained.

Recommendation – Utility customer delinquent account listings should be maintained and procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council should review the reconciliations and monitor delinquent accounts. Utility billing stubs should be retained to support amounts recorded and deposited.

Response – We will review our procedures and consider the recommendations made.

Conclusion – Response acknowledged. To provide for proper accounting for all utility billings and collections, the City should establish procedures to print and retain delinquent account listings and reconcile utility billings, collections and delinquent accounts for each billing period. The reconciliations and delinquent account listings should be reviewed by the City Council. Utility billing stubs should be retained to support amounts recorded as water and sewer receipts and to support deposits.

(D) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (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 a similar, situation arises.

Response – We will consider creating a manual.

Conclusion – Response acknowledged. The City should develop a policies and procedures manual.

(E) Computer System – The following weaknesses in the City’s computer system were noted:

The City does not have written policies for:

- Requiring password changes because software does not require the user to change log-ins/passwords and/or preventing the reuse of the same password.
- Requiring lock out if the password is incorrectly entered three times in a row.

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

City of Sully

Schedule of Findings

Year ended June 30, 2012

Recommendation – The City should develop written policies addressing the above items to improve the City’s control over its computer systems.

Response – We will review our computer systems and the capabilities of our fund accounting, payroll and utility billing software programs and consider adopting a written policy for passwords.

Conclusion – Response acknowledged. Written policies should also be developed to address the City’s disaster recovery plan.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Sully

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 did not exceed the amounts budgeted.
- (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>
Subway	Sandwiches for budget worksession and Sully betterment meeting	\$ 92

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 requirements for proper documentation.

Response – The City has adopted a public purpose policy on sustenance supplies which we felt covered this type of expense.

Conclusion – Response acknowledged. While the City has adopted a public purpose policy for “Employee Flowers and Sustenance Supplies”, the policy does not specifically address meals for meetings and work sessions. Also, while the policy allows certain purchases for flowers and sustenance supplies, the policy does not document the public benefit to be derived by purchasing these items.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Sully

Schedule of Findings

Year ended June 30, 2012

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Wes Van Wyk, Council Member, owner of Earth Works	Water line, culvert and lagoon repairs, replace hydrants	\$ 16,628

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City will consider the need to consult legal counsel on this matter.

Conclusion – Response acknowledged. The City should consult legal counsel to determine the disposition of this matter.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the minutes but were not.
- (7) Deposits and Investments – Except as noted below, no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

Chapter 12C.9 of the Code of Iowa requires interest earned on funds “being accumulated for the payment of principal and interest on indebtedness be used to pay the principal or interest as it comes due”. The City does not allocate interest earned on the Special Revenue, Tax Increment Financing and Debt Service Funds as required. The purpose of these funds is to accumulate resources to repay debt.

Recommendation – The City should allocate interest earned on the Special Revenue, Tax Increment Financing and Debt Service Funds to these funds as required by Chapter 12C.9 of the Code of Iowa.

Response – The City will begin allocating a portion of interest earned to the Tax Increment Financing and Debt Service funds as required by the Code of Iowa.

Conclusion – Response accepted.

- (8) Revenue Bonds – The City’s water revenue bond resolution requires the City to establish, impose, adjust and provide for the collection of rates to be charged to utility customers to produce net operating receipts equal to at least 110% of the principal and interest coming due in each fiscal year. The City’s fiscal year 2012 net water receipts of \$37,096 were less than 110% of the \$36,980 of water revenue bond principal and interest due during fiscal year 2012.

City of Sully

Schedule of Findings

Year ended June 30, 2012

In addition, although a sewer reserve account has been established, the balance in the account has not reached the minimum required by the sewer revenue bond resolution and the City did not make the required monthly transfers to the reserve account during fiscal year 2012.

Recommendation – The City should review its water rate structure and expenses and adjust to ensure collection of net receipts of at least 110% of the principal and interest payments due in the fiscal year. In addition, the City should make the required monthly transfers to the sewer reserve account until the account balance reaches the minimum required by the sewer revenue bond resolution.

Response – The Council has approved water and sewer rate increases and plans to review rates annually to keep revenues at the required level. The City will transfer additional money into the Sewer Reserve Fund to meet the required \$16,200 balance.

Conclusion – Response accepted.

- (9) Payment of General Obligation Notes – Principal and interest on the City’s 2010 general obligation notes were paid from the Special Revenue, Tax Increment Financing Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation notes, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the Special Revenue, Tax Increment Financing Fund to the Debt Service Fund for future funding contributions. Payments on the notes should then be made from the Debt Service Fund as required.

Response – The City will consider this recommendation. Information received from budget seminars indicated loan payments could be budgeted and paid directly out of the Special Revenue, Tax Increment Financing Fund rather than making a transfer into the Debt Service Fund and the State budget form expenditures schedule, page 2, allows debt service payments to be budgeted under column E, “TIF Special Revenues”.

Conclusion – Response acknowledged. The City should comply with Chapter 384.4 of the Code of Iowa when making future payments on general obligation debt.

- (10) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for several bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Response – A request was submitted to the bank on March 22, 2013 to begin sending as soon as possible both the front and back of each cancelled check with our bank statements for all of our accounts.

Conclusion – Response accepted.

City of Sully

Schedule of Findings

Year ended June 30, 2012

- (11) Financial Condition – The City had a deficit balance of \$6,004 in the Special Revenue, Tax Increment Financing Fund.

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

Response – The deficit is the result of a rebate related to a development agreement approved after the December 1<sup>st</sup> TIF debt certification deadline for the fiscal year. The deficit will be eliminated through future tax increment financing collections.

Conclusion – Response accepted.

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City of Sully

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager  
Karie A. Meisgeier, CPA, Staff Auditor  
Melissa J. Knoll-Speer, Senior Auditor II  
Kaylynn D. Short, Assistant Auditor

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State