



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

June 13, 2012

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$3,100,196 for the year ended June 30, 2011, a 10.5% decrease from 2010. The receipts included \$470,392 in property tax, \$254,595 from tax increment financing, \$156,431 from local option sales tax, \$720,058 from charges for service, \$296,820 from operating grants, contributions and restricted interest, \$459,061 from capital grants and contributions, \$1,709 from unrestricted interest on investments, \$26,603 from other general receipts and \$714,527 of bond proceeds.

Disbursements for the year totaled \$3,523,264, a 14.6% increase over the prior year, and included \$364,237 for public works, \$358,601 for culture and recreation and \$329,383 for public safety. Also, disbursements for business type activities totaled \$2,128,663.

The significant decrease in receipts is due primarily to a decrease in bond proceeds received for water and sewer projects. The significant increase in disbursements is due primarily to disbursements for a sewer project.

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/1120-0562-B00F.pdf>.

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CITY OF WAPELLO

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

JUNE 30, 2011

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City of Wapello

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ron Durbin	Mayor	Jan 2012
Larry Wagg	Mayor Pro tem	Jan 2012
Josh R. Drayfahl	Council Member	Jan 2012
Kevin Hardin	Council Member	Jan 2012
Adam Parsons	Council Member	Jan 2012
Randy Tillmann	Council Member	Jan 2012
Shawn Maine	Council Member	Jan 2014
Kermit L. Peterson	Council Member	Jan 2014
Celia Drayfahl	City Clerk	Indefinite
Cindy Bockes	Deputy Clerk	Indefinite
Jay Schweitzer and Tim Wink	Attorneys	Indefinite

City of Wapello



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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, the discretely presented component unit and the aggregate remaining fund information of the City of Wapello, Iowa, as of and for the year ended June 30, 2011, 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 Wapello's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, 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, the discretely presented component unit and the aggregate remaining fund information of the City of Wapello as of June 30, 2011, 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 May 2, 2012 on our consideration of the City of Wapello'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.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 32 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Wapello's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 2, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Wapello 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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 5.5%, or approximately \$73,000, from fiscal year 2010 to fiscal year 2011. Operating grants, contributions and restricted interest decreased approximately \$57,000 while tax increment financing increased approximately \$32,000.

- Disbursements of the City's governmental activities increased 26.6%, or approximately \$293,000, from fiscal year 2010 to fiscal year 2011. Public safety disbursements increased approximately \$26,000, public works disbursements increased approximately \$53,000, culture and recreation disbursements increased approximately \$88,000, general government disbursements decreased approximately \$62,000 and debt service disbursements increased approximately \$188,000.

- The City's total cash basis net assets decreased 45.6%, or approximately \$423,000, from June 30, 2010 to June 30, 2011. Of this amount, the net assets of the governmental activities increased approximately \$25,000 and the net assets of the business type activities decreased approximately \$448,000.

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.

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, general government and debt service. 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, 2) the Special Revenue Funds, such as Road Use Tax, Tax Increment Financing and Local Option Sales Tax, 3) the Debt Service Fund and 4) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

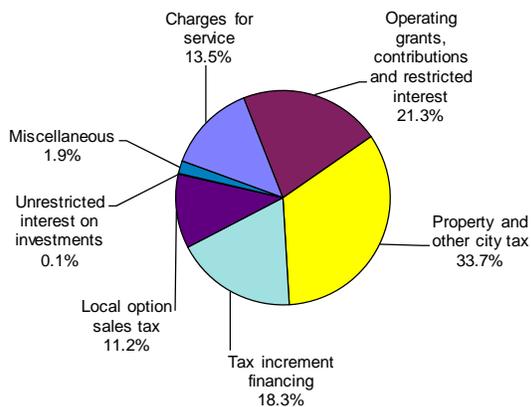
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

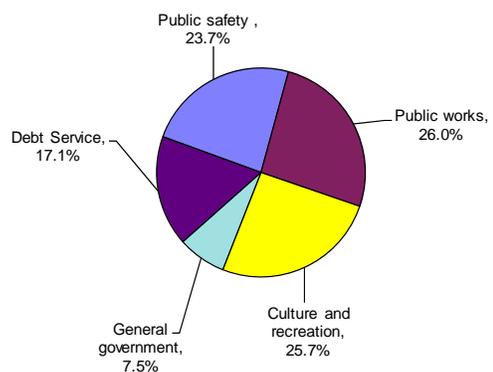
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased \$25,047 from a year ago, from \$563,892 to \$588,939. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service	\$ 189	180
Operating grants, contributions and restricted interest	297	354
General receipts:		
Property and other city tax	470	456
Tax increment financing	255	223
Local option sales tax	156	96
Unrestricted interest on investments	2	2
Miscellaneous	27	12
Total receipts	1,396	1,323
Disbursements:		
Public safety	330	304
Public works	364	311
Culture and recreation	359	271
General government	104	166
Debt service	238	50
Total disbursements	1,395	1,102
Change in cash basis net assets before transfers	1	221
Transfers, net	24	24
Change in cash basis net assets	25	245
Cash basis net assets beginning of year	564	319
Cash basis net assets end of year	\$ 589	564

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 5.5%, or approximately \$73,000. The total cost of all programs and services increased approximately \$293,000, or 26.6%. Operating grants, contributions and restricted interest decreased approximately \$57,000, or 16.1%, from the prior year due to the City receiving less donations for the fire department and the Keck Memorial Library. Tax increment financing (TIF) receipts increased approximately \$32,000, or 14.3%. The significant increase in disbursements was due to increased disbursements in the debt service function to cover regularly scheduled payments, the culture and recreation function for the Keck Memorial Library and the public works function for street projects.

The City's property tax collections increased 3.1% during fiscal year 2011. The City increased rates for the employee benefits levy, but other property tax rates remained relatively consistent.

The cost of all governmental activities this year was approximately \$1,395,000 compared to approximately \$1,102,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 14 and 15, the amount taxpayers ultimately financed for these activities was \$908,384 because some of the cost was paid by those who directly benefited from the programs (\$189,397) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$296,820).

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 180	176
Sewer	351	345
Capital grants, contributions and restricted interest	459	52
General receipts:		
Bond proceeds	715	1,566
Total receipts	<u>1,705</u>	<u>2,139</u>
Disbursements:		
Water	629	997
Sewer	1,500	974
Total disbursements	<u>2,129</u>	<u>1,971</u>
Change in cash basis net assets before transfers	(424)	168
Transfers, net	<u>(24)</u>	<u>(24)</u>
Change in cash basis net assets	(448)	144
Cash basis net assets beginning of year	<u>364</u>	<u>220</u>
Cash basis net assets end of year	<u>\$ (84)</u>	<u>364</u>

Total business type activities receipts for the fiscal year were approximately \$1,705,000 compared to approximately \$2,139,000 last year due to a decrease in bond proceeds received during fiscal year 2011. Total disbursements for the fiscal year increased approximately \$158,000, primarily due to water and sewer improvement projects started in previous years. Cash basis net assets decreased approximately \$448,000 from the prior year as the City continued to incur costs related to ongoing water and sewer projects, offset by the receipt of bond proceeds to help cover some of these costs.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Wapello completed the year, its governmental funds reported a combined cash balance of \$588,939, an increase of \$25,047 over last year's total of \$563,892. 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 \$50,488, or 17.9%, from the prior year. Receipts decreased 5.9%, primarily due to decreased donations for the Keck Memorial Library and fire department and decreased Township fire protection collections. During fiscal year 2010, the Townships gave more funding to help with equipment purchases. Disbursements decreased 0.7%.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$28,835 to \$(85,721). Receipts increased 3.1% while disbursements, primarily for street projects, increased 23.8%.
- The Special Revenue, Tax Increment Financing Fund cash balance increased \$40,371, from \$189,172 to \$229,543. The increase was primarily due to increased tax increment financing receipts and the City not repaying interfund loans due to the Enterprise, Water and Sewer Funds.
- The Special Revenue, Local Option Sales Tax (LOST) Fund cash balance increased \$63,821 to \$183,295. The increase was due primarily to an increase in LOST collections of \$60,252 over the prior year and the City continuing to spend less in LOST dollars than collected for the past four years.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$461,263 to \$(228,672). The decrease in the cash balance is primarily due to continued disbursements for water improvement projects. Most of these costs have been certified to the County Auditor as tax increment financing debt (i.e. interfund loans), yet the City has not reimbursed the Enterprise, Water Fund for the interfund loans.
- The Enterprise, Sewer Fund cash balance increased from \$137,133 to \$144,341. Increased costs associated with sewer construction projects and debt service costs were offset by bond proceeds from the State Revolving Fund and increased Community Development Block Grant receipts.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 26, 2011, primarily to provide for additional disbursements in the business type activities function for water and sewer projects.

The City's receipts were \$596,294 more than budgeted. This was primarily due to the City receiving more Community Development Block Grant receipts than expected.

Total disbursements were \$773,870 more than the amended budget, primarily in the business type activities function due to more costs for the water and sewer projects than anticipated. Also, the City did not budget for debt service payments, which increased due to increased scheduled principal and interest payments due in fiscal year 2011.

Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public safety, public works, culture and recreation, debt service and business type activities functions.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$2,600,750 in bonds, notes and other long-term debt outstanding, compared to \$2,191,482 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2011	2010
General obligation notes	\$ 1,345,825	1,582,931
Revenue bonds	1,116,451	453,924
Water and sewer revenue bank loan	106,474	118,627
Iowa Department of Public Safety loan	32,000	36,000
Total	\$ 2,600,750	2,191,482

Debt increased as a result of the City drawing down \$714,527 in state revolving fund revenue bond proceeds for sewer improvements.

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 \$1,380,829, including annually appropriated tax increment financing rebate agreements of \$3,004, is significantly below its constitutional debt limit of approximately \$3.94 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Wapello's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities. Circumstances which could significantly affect its financial health in the future are as follows:

The City is working on an Administrative Consent Order to separate the storm and sanitary sewer by September 1, 2020. In addition, the City has a compliance schedule to update its wastewater treatment facility by June 1, 2014, but the City has requested a one-year extension on the compliance schedule because it was not awarded a CDBG grant.

The City had a master plan created for its North Park and will be implementing the master plan as funding becomes available.

The City is still working towards installing the last street, along with water and sewer, in the City's TIF area (Patrick's Subdivision). Several new homes have been built in Patrick's Subdivision. Creation of the last street will allow for more homes to be constructed, thereby benefitting the City.

With the City's pool being 25 years old, it's time for a major renovation or replacement. The City Pool Board is looking to raise funds to replace the City's pool, hoping to raise \$300,000 over the next two years with the remaining costs to be covered by grants.

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 Mike Delzell, Acting City Clerk, 335 North Main Street, Wapello, Iowa 52653.

Basic Financial Statements

City of Wapello

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants and Contributions
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 329,383	13,543	18,910	-
Public works	364,237	133,384	204,494	-
Culture and recreation	358,601	20,420	73,416	-
General government	104,361	22,050	-	-
Debt service	238,019	-	-	-
Total governmental activities	<u>1,394,601</u>	<u>189,397</u>	<u>296,820</u>	<u>-</u>
Business type activities:				
Water	628,940	179,481	-	-
Sewer	1,499,723	351,180	-	459,061
Total business type activities	<u>2,128,663</u>	<u>530,661</u>	<u>-</u>	<u>459,061</u>
Total Primary Government	<u>\$ 3,523,264</u>	<u>720,058</u>	<u>296,820</u>	<u>459,061</u>
Component Unit:				
Wapello Fire and Rescue, Inc.	\$ 55,485	-	51,109	-
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Employee benefits				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Bond proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
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:				
Nonexpendable:				
Library bequest				
Expendable:				
Parks and recreation				
Police and fire purposes				
Library purposes				
Local option sales tax purposes				
Debt service				
Customer deposits				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets				Component Unit
Primary Government				Wapello Fire and Rescue, Inc.
Governmental Activities	Business Type Activities	Total		
(296,930)	-	(296,930)		
(26,359)	-	(26,359)		
(264,765)	-	(264,765)		
(82,311)	-	(82,311)		
(238,019)	-	(238,019)		
<u>(908,384)</u>	<u>-</u>	<u>(908,384)</u>		
-	(449,459)	(449,459)		
-	(689,482)	(689,482)		
-	<u>(1,138,941)</u>	<u>(1,138,941)</u>		
<u>(908,384)</u>	<u>(1,138,941)</u>	<u>(2,047,325)</u>		
				<u>(4,376)</u>
\$ 385,807	-	385,807		-
84,585	-	84,585		-
254,595	-	254,595		-
156,431	-	156,431		-
1,615	94	1,709		-
-	714,527	714,527		-
26,603	-	26,603		-
23,795	(23,795)	-		-
<u>933,431</u>	<u>690,826</u>	<u>1,624,257</u>		<u>-</u>
25,047	(448,115)	(423,068)		(4,376)
563,892	363,784	927,676		119,390
<u>\$ 588,939</u>	<u>(84,331)</u>	<u>504,608</u>		<u>115,014</u>
\$ 30,000	-	30,000		-
15,563	-	15,563		-
12,492	-	12,492		115,014
37,253	-	37,253		-
183,295	-	183,295		-
229,543	7,208	236,751		-
-	53,703	53,703		-
80,793	(145,242)	(64,449)		-
<u>\$ 588,939</u>	<u>(84,331)</u>	<u>504,608</u>		<u>115,014</u>

City of Wapello

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

As of and for the year ended June 30, 2011

	General	Road Use Tax
Receipts:		
Property tax	\$ 385,807	-
Tax increment financing	-	-
Other city tax	-	-
Licenses and permits	21,766	-
Use of money and property	6,033	-
Intergovernmental	31,450	203,963
Charges for service	152,792	-
Miscellaneous	94,756	-
Total receipts	<u>692,604</u>	<u>203,963</u>
Disbursements:		
Operating:		
Public safety	196,312	-
Public works	115,791	232,798
Culture and recreation	336,524	-
General government	94,465	-
Debt service	-	-
Total disbursements	<u>743,092</u>	<u>232,798</u>
Excess (deficiency) of receipts over (under) disbursements	(50,488)	(28,835)
Other financing sources:		
Operating transfers in	-	-
Net change in cash balances	(50,488)	(28,835)
Cash balances beginning of year, as restated	282,132	(56,886)
Cash balances end of year	<u>\$ 231,644</u>	<u>(85,721)</u>
Cash Basis Fund Balances		
Nonspendable:		
Library bequest	\$ -	-
Restricted for:		
Parks and recreation	15,563	-
Police and fire purposes	12,492	-
Library purposes	37,075	-
Local option sales tax purposes	-	-
Debt service	-	-
Unassigned	166,514	(85,721)
Total cash basis fund balances	<u>\$ 231,644</u>	<u>(85,721)</u>

See notes to financial statements.

Special Revenue			
Tax	Local		
Increment	Option Sales		
Financing	Tax	Nonmajor	Total
-	-	84,585	470,392
254,595	-	-	254,595
-	156,431	-	156,431
-	-	-	21,766
-	-	178	6,211
-	-	-	235,413
-	-	-	152,792
-	3,497	-	98,253
254,595	159,928	84,763	1,395,853
-	96,107	36,964	329,383
-	-	15,648	364,237
-	-	22,077	358,601
-	-	9,896	104,361
214,224	-	23,795	238,019
214,224	96,107	108,380	1,394,601
40,371	63,821	(23,617)	1,252
-	-	23,795	23,795
40,371	63,821	178	25,047
189,172	119,474	30,000	563,892
229,543	183,295	30,178	588,939
-	-	30,000	30,000
-	-	-	15,563
-	-	-	12,492
-	-	178	37,253
-	183,295	-	183,295
229,543	-	-	229,543
-	-	-	80,793
229,543	183,295	30,178	588,939

City of Wapello

City of Wapello

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

As of and for the year ended June 30, 2011

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 164,872	350,311	515,183
Miscellaneous	14,609	869	15,478
Total operating receipts	179,481	351,180	530,661
Operating disbursements:			
Business type activities	203,194	177,270	380,464
Excess (deficiency) of operating receipts over (under) operating disbursements	(23,713)	173,910	150,197
Non-operating receipts (disbursements):			
Interest on investments	94	-	94
Bond proceeds	-	714,527	714,527
Community development block grant	-	452,616	452,616
Capital outlay	(406,563)	(1,185,659)	(1,592,222)
Debt service	(19,183)	(136,794)	(155,977)
Total non-operating receipts (disbursements)	(425,652)	(155,310)	(580,962)
Excess (deficiency) of receipts over (under) disbursements	(449,365)	18,600	(430,765)
Capital contributions:			
Special assessments	-	6,445	6,445
Operating transfers out	(11,898)	(11,897)	(23,795)
Net change in cash balances	(461,263)	13,148	(448,115)
Cash balances beginning of year	232,591	131,193	363,784
Cash balances end of year	\$ (228,672)	144,341	(84,331)
Cash Basis Fund Balances			
Reserved for:			
Debt service	\$ -	7,208	7,208
Customer deposits	53,703	-	53,703
Unreserved	(282,375)	137,133	(145,242)
Total cash basis fund balances	\$ (228,672)	144,341	(84,331)

See notes to financial statements.

City of Wapello

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Wapello is a political subdivision of the State of Iowa located in Louisa County. It was first incorporated in 1856 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 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 Wapello 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 Wapello (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

Wapello Fire and Rescue, Inc. has been incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504A of the Code of Iowa, for the purpose of aiding in the extinguishing of fires and performing such other duties as set forth by the Wapello Volunteer Fire Department. The Department receives donations for the benefit of the Wapello Volunteer Fire Department. These donations are to be used to purchase items which are not included in the City's budget. In accordance with criteria set forth by the Governmental Accounting Standards Board, Wapello Fire and Rescue, Inc. meets the definition of a component unit which should be discretely presented.

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: Louisa County Assessor's Conference Board, Louisa County Joint E911 Service Board and Louisa County Emergency Management Agency. The City also participates in the Louisa Regional Solid Waste Agency, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

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:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

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 reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

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 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 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:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

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 classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public safety, public works, culture and recreation, debt service and business type activities functions.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2011 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.

At June 30, 2011, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
U.S. Treasury Notes	\$ 5,000	5,063	10/31/2011
U.S. Treasury Notes	25,000	25,063	11/30/2012
Total	<u>\$ 30,000</u>	<u>30,126</u>	

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

(3) Long-Term Debt

Primary Government:

Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Notes		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 213,739	54,593	19,000	10,740	232,739	65,333
2013	192,464	46,252	20,000	10,170	212,464	56,422
2014	200,286	38,439	20,000	9,570	220,286	48,009
2015	208,301	30,310	21,000	8,970	229,301	39,280
2016	182,948	21,858	22,000	8,340	204,948	30,198
2017-2021	348,087	21,200	118,000	31,530	466,087	52,730
2022-2026	-	-	138,000	12,630	138,000	12,630
Total	<u>\$1,345,825</u>	<u>212,652</u>	<u>358,000</u>	<u>91,950</u>	<u>1,703,825</u>	<u>304,602</u>

The Code of Iowa requires principal and interest on general obligation notes be paid from the Debt Service Fund. However, \$51,710, \$11,194 and \$214,134 of general obligation note principal and interest were paid from the Enterprise, Sewer, Enterprise, Water and Special Revenue, Tax Increment Financing Funds, respectively, during the year.

General Obligation Notes

On May 9, 2002, the City issued a general obligation corporate purpose note for \$227,665 to finance certain water and sewer improvements. The note is to be repaid in 120 monthly installments of \$2,415, including interest at 5.00% per annum, beginning June 15, 2002.

The City plans to repay the note from the Enterprise, Water and Sewer Funds. During the year ended June 30, 2011, the City paid principal of \$27,186 and interest of \$1,797 on the note, leaving a principal balance of \$20,982.

On October 29, 2008, the City issued a general obligation corporate purpose note for \$66,712 to finance the purchase of public works equipment. The note is to be repaid in 36 monthly installments of \$1,983, including interest at 4.45% per annum, beginning December 1, 2008, then converting to 1% above the five year treasury rate thereafter.

The City plans to repay the note from the Enterprise, Water and Sewer Funds. During the year ended June 30, 2011, the City paid principal of \$22,900 and interest of \$895 on the note, leaving a principal balance of \$7,807.

On October 29, 2008, the City also issued a general obligation corporate purpose note for \$214,000 to finance water and sewer improvements. The note is to be repaid in 120 monthly installments of \$2,213, including interest at 4.45% per annum beginning December 1, 2008, then converting to 1% above the five year treasury rate thereafter.

The City plans to repay the note from tax increment financing receipts. During the year ended June 30, 2011, the City paid principal of \$19,023 and interest of \$7,442 on the note, leaving a principal balance of \$159,033.

On October 28, 2009, the City issued a general obligation corporate purpose note for \$151,000 to finance the purchase of emergency generators. The note is to be repaid in five annual payments of \$33,920, including interest at 4.00% per annum, beginning October 22, 2010.

The City plans to repay the note from the Enterprise, Water and Sewer Funds. During the year ended June 30, 2011, the City paid principal of \$27,997 and interest of \$5,924 on the note, leaving a principal balance of \$123,003.

On December 4, 2009, the City issued a general obligation corporate purpose note for \$1,200,000 to finance water and sewer improvements. The note is to be repaid in eight annual payments of \$178,251, including interest at 4.00% per annum, beginning October 22, 2010.

The City plans to repay the note from tax increment financing receipts. During the year ended June 30, 2011, the City paid principal of \$140,000 and interest of \$47,669 on the note, leaving a principal balance of \$1,035,000.

Sewer Revenue Bonds

On June 2, 2005, the City entered into a state revolving loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of a \$447,000 sewer revenue bond with interest at 3.0% per annum. The bond was issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa. At June 30, 2011, the City had drawn \$447,000 of the authorized amount. During the year ended June 30, 2011, the City paid principal of \$19,000 and interest of \$11,310 on the bond. The balance on the bond at June 30, 2011 was \$358,000.

On April 7, 2010, the City entered into a loan agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources (DNR) for the issuance of a sewer revenue bond of up to \$900,000 with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bond was issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the municipal wastewater treatment system. The City will draw down funds from the DNR upon request to reimburse the City for costs as they are incurred. At June 30, 2011, the City had drawn down \$791,451 of the authorized amount. An initiation fee of \$9,000 (1% of the authorized borrowing for the sewer revenue bond) was charged by the Iowa Finance Authority in 2010. The total initiation fee was withheld from the first proceeds of the sewer revenue bond drawn by the City during the year ended June 30, 2010. During the year ended June 30, 2011, the City paid principal of \$33,000 and interest of \$9,993 on the bond. The balance on the bond at June 30, 2011 was \$758,451.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,347,000 of sewer revenue bonds issued in June 2005 and April 2010. The percentage of net receipts required to pay annual principal and interest payments on the bonds and the total amount of principal and interest remaining to be paid on the bonds at June 30, 2011 are not available since a final repayment schedule has not been adopted for the 2010 bonds. For the current year, principal and interest paid and total customer net receipts were \$73,303 and \$173,910, respectively.

The resolutions providing for the issuance of the sewer 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 a sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (c) User rates shall be established at a level which produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the bond falling due in the same year.

Bank Loan

On September 17, 1998, the City obtained a bank loan for \$190,000 to finance water and sewer improvements. The loan is to be repaid in twenty annual installments of \$16,579, including interest at 6% per annum, beginning October 1, 1999.

Pursuant to the loan agreement, the loan is authorized under Chapter 384.24A(5) of the Code of Iowa and is payable from the City's Enterprise, Water and Sewer Funds. During the year ended June 30, 2011, the City paid principal of \$12,153 and interest of \$4,425 on the loan, leaving a principal balance at June 30, 2011 of \$106,474.

The City has pledged future water and sewer customer receipts, net of specified operating disbursements, to repay the \$190,000 bank loan. The loan is payable solely from water and sewer customer net receipts and is payable through 2018. Annual principal and interest payments on the loan are expected to require more than 100% of net receipts of the Enterprise, Water Fund and 5% of net receipts of the Enterprise, Sewer Fund. For the current year, \$7,989 and \$8,589 of principal and interest were

paid from the Enterprise, Water and Sewer Funds, respectively. Total customer net receipts were \$(23,713) and \$173,910 in the Enterprise, Water and Sewer Funds, respectively.

Iowa Department of Public Safety Loan

On February 25, 2009, the City obtained a \$40,000 interest free loan from the Iowa Department of Public Safety to assist the City in purchasing a new fire truck. The loan is to be repaid in 20 semi-annual installments of \$2,000 beginning on November 1, 2009. The principal balance on the loan at June 30, 2011 is \$32,000.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% 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 contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$26,916, \$26,039 and \$20,450, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 8 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Allied National. Retirees under age 65 would pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The monthly premiums vary for single and family plans. The premium is calculated on an individual basis off the individual's health history. The same process would apply to monthly premiums of retirees. For the year ended June 30, 2011, the City contributed \$51,045 to the plan. The plan members do not contribute to the plan.

(6) 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.

Employees eligible for retirement will receive one-half of their accumulated sick leave balance. However, the employees must have earned the maximum days allowable before sick leave benefits under this plan are effective. No employees were eligible for sick leave benefits at June 30, 2011.

The City's approximate liability for earned vacation hours payable to employees at June 30, 2011, primarily relating to the General Fund, was approximately \$19,000. This liability has been computed based on rates of pay in effect at June 30, 2011.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Enterprise:	
	Water	\$ 11,898
	Sewer	11,897
Total		\$ 23,795

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

(8) 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.

(9) Rebate and Development Agreements

In January 2009, the City entered into a tax increment financing rebate agreement with Midwest Rod and Restoration (Company) to assist in an urban renewal project by rebating incremental property tax paid by the Company with respect to the improvements set forth in the urban renewal plan. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the Company will be rebated for a period of five years beginning with the tax year in which the property tax on the completed value of the improvements are first paid. The total amount to be rebated in any fiscal year under the tax increment financing rebate agreement will not exceed 100% for the first year, 80% for the second year, 60% for the third year, 40% for the fourth year and 20% for the fifth year. The actual amount rebated during the second year of the agreement ended June 30, 2011 was \$2,239. The Code of Iowa requires tax increment financing rebates be paid from the Special Revenue, Tax Increment Financing Fund. However, \$2,239 of tax increment financing rebates were paid from the General Fund during the year.

The City has entered into a development agreement in accordance with Chapter 15A of the Code of Iowa. The agreement was for the construction a new Dollar General store located in the City. The City agreed to reimburse certain property tax paid by the developer for five years. The tax reimbursement will be 100% for the first year, 80% for the second year, 60% for the third year, 40% for the fourth year and 20% for the fifth year. The fifth year reimbursement of \$764 was properly paid from the General Fund during the year ended June 30, 2011.

(10) Interfund Loans

The detail of interfund loans at June 30, 2011 is as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
Special Revenue:	Enterprise:	
Tax Increment Financing	Water	\$ 185,179
	Sewer	228,539
Total		<u>\$ 413,718</u>

The loans represent amounts paid from the Enterprise, Water and Sewer Funds for costs associated with the City’s urban renewal projects. These loans will be repaid through transfers from the Special Revenue, Tax Increment Financing Fund as receipts of the fund become available. No reimbursements occurred during the year ended June 30, 2011.

(11) Deficit Balances

At June 30, 2011, the City had the following deficit fund balances:

<u>Fund</u>	<u>Amount</u>
Special Revenue:	
Road Use Tax	\$ (85,721)
Enterprise:	
Water	(228,672)

The Special Revenue, Road Use Tax Fund deficit is the result of an increase in road projects during the current and prior fiscal years. The deficit will be eliminated through future road use tax collections.

The Enterprise, Water Fund deficit is the result of an increase in water projects during the current and prior fiscal years and a lack of reimbursements from the Special Revenue, Tax Increment Financing Fund for the interfund loans.

(12) Construction Contracts

The City entered into various construction contracts totaling \$1,547,529 for a sewer improvement project. At June 30, 2011, \$470,464 remains unpaid on the contracts and will be paid as work on the project progresses. The project will be funded through state and federal grants, bond proceeds, donations and local sources, as necessary.

(13) Subsequent Events

On September 30, 2011, the City entered into a loan agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources (DNR) for the issuance of a sewer revenue bond of up to \$328,000 with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bond was issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the municipal wastewater treatment system. The City will draw down funds from the DNR upon request to reimburse the City for costs as they are incurred.

On April 20, 2012, the City entered into a sewer revenue loan and disbursement agreement anticipation project note with the Iowa Finance Authority to be used for the purpose of paying costs in connection with planning, designing and constructing

improvements to the wastewater treatment center. The note was issued pursuant to Chapters 76.13 and 384.24A of the Code of Iowa in anticipation of the receipt of and is payable from the proceeds of an authorized loan agreement and a corresponding issuance of sewer revenue bonds in a principal amount not to exceed \$125,000.

(14) Reclassification

A portion of the July 1, 2010 General Fund balance has been reclassified to a Permanent Fund to properly report the balance of a library bequest, a portion of which must be permanently held by the City. The effect of fund type reclassification is as follows:

	<u>General</u>	<u>Permanent Library Bequest</u>
Balances June 30, 2010, as previously reported	\$ 312,132	-
Change in fund type classification	<u>(30,000)</u>	<u>30,000</u>
Balances July 1, 2010, as restated	<u>\$ 282,132</u>	<u>30,000</u>

City of Wapello

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 470,392	-	470,392
Tax increment financing	254,595	-	254,595
Other city tax	156,431	-	156,431
Licenses and permits	21,766	-	21,766
Use of money and property	6,211	94	6,305
Intergovernmental	235,413	452,616	688,029
Charges for service	152,792	515,183	667,975
Special assessments	-	6,445	6,445
Miscellaneous	98,253	15,478	113,731
Total receipts	<u>1,395,853</u>	<u>989,816</u>	<u>2,385,669</u>
Disbursements:			
Public safety	329,383	-	329,383
Public works	364,237	-	364,237
Culture and recreation	358,601	-	358,601
General government	104,361	-	104,361
Debt service	238,019	-	238,019
Business type activities	-	2,128,663	2,128,663
Total disbursements	<u>1,394,601</u>	<u>2,128,663</u>	<u>3,523,264</u>
Excess (deficiency) of receipts over (under) disbursements	1,252	(1,138,847)	(1,137,595)
Other financing sources (uses), net	23,795	690,732	714,527
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	25,047	(448,115)	(423,068)
Balances beginning of year	563,892	363,784	927,676
Balances end of year	<u>\$ 588,939</u>	<u>(84,331)</u>	<u>504,608</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
461,353	461,353	9,039
231,780	231,780	22,815
106,690	106,690	49,741
21,325	21,325	441
5,787	5,787	518
243,934	243,934	444,095
694,906	694,906	(26,931)
8,000	8,000	(1,555)
15,600	15,600	98,131
<u>1,789,375</u>	<u>1,789,375</u>	<u>596,294</u>
285,405	285,405	(43,978)
345,573	362,573	(1,664)
249,751	249,751	(108,850)
123,000	123,000	18,639
-	-	(238,019)
553,866	1,728,665	(399,998)
<u>1,557,595</u>	<u>2,749,394</u>	<u>(773,870)</u>
231,780	(960,019)	(177,576)
-	1,191,799	(477,272)
231,780	231,780	(654,848)
581,047	581,047	346,629
<u>812,827</u>	<u>812,827</u>	<u>(308,219)</u>

City of Wapello

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,191,799. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, debt service and business type activities functions.

Other Supplementary Information

City of Wapello

City of Wapello

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

Year ended June 30, 2011

	Special Revenue		Permanent Library	
	Employee Benefits	Debt Service	Bequest	Total
Receipts:				
Property tax	\$ 84,585	-	-	84,585
Use of money and property	-	-	178	178
Total receipts	84,585	-	178	84,763
Disbursements:				
Operating:				
Public safety	36,964	-	-	36,964
Public works	15,648	-	-	15,648
Culture and recreation	22,077	-	-	22,077
General government	9,896	-	-	9,896
Debt service	-	23,795	-	23,795
Total disbursements	84,585	23,795	-	108,380
Excess (deficiency) of receipts over (under) disbursements	-	(23,795)	178	(23,617)
Other financing sources:				
Operating transfers in	-	23,795	-	23,795
Net change in cash balances	-	-	178	178
Cash balances beginning of year, as restated	-	-	30,000	30,000
Cash balances end of year	\$ -	-	30,178	30,178
Cash Basis Fund Balances				
Nonspendable - library bequest	\$ -	-	30,000	30,000
Restricted	-	-	178	178
Total cash basis fund balances	\$ -	-	30,178	30,178

See accompanying independent auditor's report.

City of Wapello
Schedule of Indebtedness
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Primary government:			
General obligation notes:			
Water and sewer improvements	May 9, 2002	5.00%	\$ 227,665
Public works equipment	Oct 29, 2008	4.45	66,712
Water and sewer improvements	Oct 29, 2008	4.45	214,000
Emergency generators	Oct 28, 2009	4.00	151,000
Water and sewer improvements	Dec 4, 2009	4.00	1,200,000
Total			
Revenue bonds:			
Sewer	Jun 2, 2005	3.00%	\$ 447,000
Sewer	Apr 7, 2010	* 3.00	\$ 900,000
Total			
Bank loan:			
Water and sewer revenue	Sep 17, 1998	6.00%	\$ 190,000
Iowa Department of Public Safety loan:			
Fire truck	Feb 25, 2009	0%	\$ 40,000

* The City is required to annually pay a .25% servicing fee on the outstanding principal balance.
See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
48,168	-	27,186	20,982	1,797
30,707	-	22,900	7,807	895
178,056	-	19,023	159,033	7,442
151,000	-	27,997	123,003	5,924
1,175,000	-	140,000	1,035,000	47,669
<u>\$ 1,582,931</u>	<u>-</u>	<u>237,106</u>	<u>1,345,825</u>	<u>63,727</u>
377,000	-	19,000	358,000	11,310
76,924	714,527	33,000	758,451	9,993
<u>\$ 453,924</u>	<u>714,527</u>	<u>52,000</u>	<u>1,116,451</u>	<u>21,303</u>
118,627	-	12,153	106,474	4,425
36,000	-	4,000	32,000	-

City of Wapello
Bond and Note Maturities
June 30, 2011

Year Ending June 30,	Water and Sewer Improvements Issued May 9, 2002		Public Works Equipment Issued Oct. 29, 2008		General Water and Sewer Improvements Issued October 29, 2008	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2012	5.00%	\$ 20,982	4.45%	\$ 7,807	4.45%	\$ 19,475
2013		-		-	4.45	20,378
2014		-		-	4.45	21,303
2015		-		-	4.45	22,271
2016		-		-	4.45	23,274
2017		-		-	4.45	24,340
2018		-		-	4.45	25,445
2019		-		-	4.45	2,547
Total		<u>\$ 20,982</u>		<u>\$ 7,807</u>		<u>\$ 159,033</u>

Year Ending June 30,	Revenue Bonds Sewer	
	Interest	
	Rates	Amount
2012	3.00%	\$ 19,000
2013	3.00	20,000
2014	3.00	20,000
2015	3.00	21,000
2016	3.00	22,000
2017	3.00	22,000
2018	3.00	23,000
2019	3.00	24,000
2020	3.00	24,000
2021	3.00	25,000
2022	3.00	26,000
2023	3.00	27,000
2024	3.00	28,000
2025	3.00	28,000
2026	3.00	29,000
Total		<u>\$ 358,000</u>

See accompanying independent auditor's report.

Obligation Notes					
Emergency Generators		Water and Sewer Improvements			
Issued October 28, 2009		Issued December 4, 2009			
Interest Rates	Amount	Interest Rates	Amount	Total	
4.00%	\$ 28,996	4.00%	\$ 136,479	213,739	
4.00	30,145	4.00	141,941	192,464	
4.00	31,361	4.00	147,622	200,286	
4.00	32,501	4.00	153,529	208,301	
	-	4.00	159,674	182,948	
	-	4.00	166,064	190,404	
	-	4.00	129,691	155,136	
	-		-	2,547	
	<u>\$ 123,003</u>		<u>\$ 1,035,000</u>	<u>1,345,825</u>	

City of Wapello

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Nine Years

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Receipts:				
Property and other city tax	\$ 470,392	455,657	430,545	427,218
Tax increment financing	254,595	222,588	214,121	193,892
Local option sales tax	156,431	96,180	95,377	83,314
Licenses and permits	21,766	23,494	27,991	20,999
Use of money and property	6,211	4,468	13,720	19,544
Intergovernmental	235,413	254,831	405,834	208,746
Charges for service	152,792	143,379	134,384	140,549
Miscellaneous	98,253	123,614	83,750	91,940
Total	<u>\$ 1,395,853</u>	<u>1,324,211</u>	<u>1,405,722</u>	<u>1,186,202</u>
Disbursements:				
Operating:				
Public safety	\$ 329,383	304,288	515,199	281,161
Public works	364,237	311,414	375,854	359,504
Culture and recreation	358,601	270,496	284,172	234,978
General government	104,361	166,137	118,079	139,740
Debt service	238,019	50,350	33,567	33,189
Total	<u>\$ 1,394,601</u>	<u>1,102,685</u>	<u>1,326,871</u>	<u>1,048,572</u>

See accompanying independent auditor's report.

2007	2006	2005	2004	2003
399,536	383,917	379,516	388,312	392,878
46,601	103,795	97,319	60,240	43,476
-	-	-	-	-
21,486	19,373	20,114	19,606	5,224
28,290	10,014	13,208	11,283	16,535
198,387	324,316	197,004	365,128	247,483
135,330	134,159	133,396	127,059	124,214
122,621	106,014	143,952	98,564	85,464
952,251	1,081,588	984,509	1,070,192	915,274
163,328	330,627	195,402	166,751	159,505
276,829	301,510	350,321	305,250	273,179
313,630	194,706	194,587	203,080	195,381
117,799	133,330	130,106	127,951	109,695
16,595	201,861	61,172	61,781	62,372
888,181	1,162,034	931,588	864,813	800,132

City of Wapello



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STATE OF IOWA

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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, the discretely presented component unit and the aggregate remaining fund information of the City of Wapello, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated May 2, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Wapello is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Wapello'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 Wapello's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Wapello'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 Wapello'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) through (H) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Wapello'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, 2011 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 Wapello'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 Wapello'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 Wapello and other parties to whom the City of Wapello 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 Wapello 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

May 2, 2012

City of Wapello

Schedule of Findings

Year ended June 30, 2011

Findings Related to the Financial Statements:

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. When duties are properly segregated, the activities of one employee act as a check on those of another. For the City, one individual has control over one or more of the following areas:
- (1) Accounting system – performing all general accounting functions and having custody of assets.
 - (2) Cash – preparing bank reconciliations, 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 and reconciling.
 - (5) Receipts – collecting, depositing, journalizing, posting and reconciling.
 - (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
 - (7) Disbursements – preparing, recording and reconciling.
 - (8) Payroll – preparing and distributing.
 - (9) Computer usage – performing all general accounting functions, preparation of journal entries and controlling data input and output.
 - (10) Financial reporting – preparing, reconciling and distributing.

For the Keck Memorial Library, one individual has control over one or more of the following areas:

- (1) Cash – preparing bank reconciliations, initiating cash receipt and disbursement transactions and handling and recording cash.
- (2) Receipts – collecting, depositing, posting and reconciling.
- (3) Disbursements – preparing, recording and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City and the Keck Memorial Library should review their operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by the signature or initials of the independent reviewer and the date of the review.

Response – The City and the Keck Memorial Library will review the operating procedures and implement procedures where possible.

Conclusion – Response accepted.

City of Wapello

Schedule of Findings

Year ended June 30, 2011

- (B) Bank Reconciliations and Financial Reports – Complete monthly bank to book reconciliations which included all City bank accounts and investments were not prepared. Monthly financial reports including all City accounts and activity were not prepared and provided to the City Council for review and approval.

Recommendation – Monthly bank to book reconciliations which include all City bank accounts and investments should be prepared. Variances, if any, should be resolved timely. Monthly financial reports, including all City accounts and activity and bank to book reconciliations, should be provided to the City Council each month for review and approval.

Response – The City will reconcile and prepare monthly financial reports for the City Council to approve. The approval will be noted on the reports and reconciliations by initial and date of review by the City Council.

Conclusion – Response accepted.

- (C) Financial Reporting – During the audit, we identified the following material reporting errors:

- \$84,585 of property tax levied for employee benefits was incorrectly posted to the General Fund rather than the Special Revenue, Employee Benefits Fund.
- The Debt Service Fund paid \$23,795 of principal and interest on general obligation notes which the City intended to fund with revenues from the Enterprise, Water and Sewer Funds. However, the City did not make the required transfers of, \$11,898 and \$11,897 from the Enterprise, Water and Sewer Funds, respectively, to reimburse the Debt Service Fund. As of June 30, 2011, the City recorded corrective transfers to properly reimburse the Debt Service Fund.
- The City did not post recommended corrective journal entries to the software system for errors identified during the fiscal year 2010 audit. This resulted in amounts recorded in the City's software system at July 1, 2010 which vary from previously reported amounts. Corrective entries were subsequently given to the City to post in the computer system. The City is currently working to make these corrections. The financial statements reflect the correct balances.
- IJOBS receipts totaling \$11,288 were incorrectly classified as "miscellaneous" receipts rather than "intergovernmental" receipts.
- \$78,216 paid to the County to help cover debt issued for the jail was incorrectly paid from the General Fund rather than the Special Revenue, Local Option Sales Tax Fund.
- \$30,178 of the Permanent Fund balance was incorrectly included as part of the General Fund.

Adjustments were subsequently made by the City to properly reflect all of these amounts in the financial statements.

City of Wapello

Schedule of Findings

Year ended June 30, 2011

Recommendation – The City should implement procedures to ensure financial transactions are properly recorded in the City’s financial records.

Response – The City will implement procedures to ensure employee benefits levied is properly recorded in a Special Revenue Fund, transfers are made to reimburse the Debt Service Fund, journal entries are reviewed and entered into the computer system as necessary, receipts are properly coded to the correct account, the City’s share of the County’s jail debt is paid from the Special Revenue, Local Option Sales Tax Fund and the Permanent Fund is properly recorded.

Conclusion – Response accepted.

(D) Computer Systems – The following weaknesses in the City’s computer systems 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.
- Requiring timeout or logoff functions to be utilized when terminals are left unattended.
- Requiring computer journal entries to be reviewed and approved by an independent individual.

Additionally, the written disaster recovery plan does not include:

- 1) A list of computer equipment necessary for temporary operations.
- 2) An inventory of all hardware.

In addition, the disaster recovery plan has not been adequately tested by the City.

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

Response – The City will develop a computer policy which encompasses the above recommendations.

Conclusion – Response accepted.

(E) Investments – The City does not maintain an investment record.

Recommendation – A detailed investment record should be maintained detailing the investment number, date purchased, maturity date, interest rate, fund(s) held for, interest earned and any other information the City believes is necessary. This record should be kept current each month and should be reconciled to the bank and financial accounting records on a monthly basis.

City of Wapello

Schedule of Findings

Year ended June 30, 2011

Response – The City will maintain an investment record.

Conclusion – Response accepted.

- (F) Utility Reconciliations – Although a reconciliation of utility billings, collections and delinquent accounts is performed each billing cycle, variances identified by the reconciliations are not resolved.

Recommendation – Procedures should be established to ensure variances in the utility reconciliations identified are resolved timely.

Response – All variances will be investigated at the time of the reconciliation.

Conclusion – Response accepted.

- (G) Wapello Fire and Rescue, Inc. – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from performing duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. For Wapello Fire and Rescue, Inc., one individual has control over one or more of the following areas:

- (1) Cash – preparing bank reconciliations, initiating cash receipt and disbursement transactions and handling and recording cash.
- (2) Receipts – collecting, depositing, posting and reconciling.

Wapello Fire and Rescue, Inc. does not maintain an investment register showing certificate of deposit activity for the fiscal year.

Recommendation – Wapello Fire and Rescue, Inc. should review its operating procedures to obtain the maximum internal control possible under the circumstances and should maintain an investment register documenting the investment activity of each investment held during the year.

Response – A copy of the comment was given to Fire Chief, Eric Small.

Conclusion – Response acknowledged.

- (H) Timely Deposit – Certain state warrants tested were not deposited timely.

Recommendation – The City should develop policies and procedures to ensure all receipts are deposited timely.

Response – The City will develop a policy for collecting and depositing timely.

Conclusion – Response accepted.

City of Wapello

Schedule of Findings

Year ended June 30, 2011

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Wapello

Schedule of Findings

Year ended June 30, 2011

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public safety, public works, culture and recreation, debt service and business type activities functions. 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 sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City will amend the budget before exceeding.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Shawn Maine, Council Member, owner of Midwest Rod Restoration	Squad car and pool diving board repair Urban renewal development agreement	\$ 751 *
Adam Parsons, Council Member, lawyer at Hicklin & Matthews	Legal services - police	725
Larry Wagg, Council Member, owner of Browns Repair	Lawnmower repair	1,178
Stacy Griffin, Pool Board Member, Owner of Stitches and Cream	Pool concessions	2,981
Celia Drayfahl, City Clerk, husband owns 3-D Fabrications	Anchor bolts, hardware, bushings and mud baskets	1,336

* Total amount of this agreement is based on rebate of future property tax and, accordingly, the amount is unknown at June 30, 2011. During the year ended June 30, 2011, the City paid \$2,239 under this agreement.

The transactions with City Council Member Parsons, Council Member Wagg and the City Clerk’s husband do not represent conflicts of interest in accordance with Chapter 362.5(10) of the Code of Iowa since the cumulative totals for each individual during the fiscal year were less than \$1,500.

City of Wapello

Schedule of Findings

Year ended June 30, 2011

According to the City Attorney, a conflict of interest does not exist related to the urban renewal development agreement with Council Member Maine since Mr. Maine abstained from voting on the issue of entering into the agreement.

The transactions with the Pool Board Member may represent a conflict of interest since the total transactions exceeded \$1,500 during the fiscal year.

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

Response – The City will consult legal counsel.

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – Except as noted below, no transactions were found that we believe should have been approved in the minutes but were not.

Although minutes of Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa.

Response – The City will comply with this recommendation in the future.

Conclusion – Response accepted.

- (7) Deposits and Investments – 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.
- (8) Revenue Bond – Although the sewer sinking account has been established as required by the revenue bond resolution, the City did not make the required monthly transfers to the sinking account during the fiscal year.

Recommendation – The City should ensure monthly transfers are made to the sewer sinking account as required.

Response – The City will make required transfers.

Conclusion – Response accepted.

- (9) Separately Maintained Records – The Keck Memorial Library maintains separate accounting records for its operations. Although monthly financial reports are prepared and provided to the City, the activity is not included in the City's computer system or in the City's accounting records or financial reports.

City of Wapello

Schedule of Findings

Year ended June 30, 2011

In addition, the Police Department K-9, Police Equipment, Briggs Center, Chief Wapello Days and various parks and recreation accounts were not included in the City's computer system and/or in the monthly financial reports.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's computer system and accounting records and be reported to the Council on a monthly basis.

Response – The City will look into adding all accounts to the City's computer system.

Conclusion – Response accepted.

- (10) Payment of General Obligation Notes – Principal and interest on the City's 2002, 2008 and 2009 general obligation notes were paid from the Enterprise, Sewer and Water Funds and 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 and the Enterprise, Water and Sewer Funds to the Debt Service Fund for future funding contributions. Payments on the notes should be made from the Debt Service Fund as required.

Response – The City will strive to make payments from the Debt Service Fund and transfer from the appropriate fund.

Conclusion – Response accepted.

- (11) Urban Renewal Tax Increment (TIF) Rebate Agreements – During the year ended June 30, 2011, \$2,239 of urban renewal tax increment rebate payments were made from the General Fund. In accordance with Chapter 403.19(2) of the Code of Iowa, TIF debt payments should be made from the Special Revenue, Tax Increment Financing Fund.

In addition, pursuant to the development agreement related to the fiscal year 2011 TIF rebate payments, the payments to the developer are “subject to annual approval and appropriation by the City Council”. The City Council did not appropriate the rebate prior to payment.

Recommendation – The City should transfer \$2,239 from the Special Revenue, Tax Increment Financing Fund to the General Fund to correct the error. Future tax increment financing rebate payments should be made from the Special Revenue, Tax Increment Financing Fund as required by Chapter 403.19(2) of the Code of Iowa. Tax rebate payments should be appropriated by the City Council prior to making the payment.

Response – The City will make the necessary changes.

Conclusion – Response accepted.

City of Wapello

Schedule of Findings

Year ended June 30, 2011

- (12) Tax Increment Financing Debt Certification – In December 2010, the City certified tax increment financing (TIF) indebtedness to the County Auditor for invoices totaling \$579,945 and \$169,463 from the Enterprise, Water and Sewer Funds, respectively, for projects within the City’s urban renewal area. While the City intended these payments to represent loans from the Enterprise, Water and Sewer Funds to the Special Revenue, Tax Increment Financing Fund for the related TIF projects, the loans were never formally approved by the City Council and, accordingly, do not represent TIF debt which may be certified to the County Auditor.

In addition, the City collected \$254,595 of tax increment financing receipts during the year ended June 30, 2011. These receipts have not been used by the City to repay the interfund loans as required by Chapter 403.19 of the Code of Iowa. The Special Revenue, Tax Increment Financing Fund balance at June 30, 2011 was \$229,543.

Recommendation – The City should establish procedures to ensure the TIF debt certification complies with Chapter 403 of the Code of Iowa and includes only allowable debt approved by the City Council prior to certification. The City should also review the amounts due on interfund loans at June 30, 2011 and transfer TIF revenue to the Enterprise, Water and Sewer Funds, as appropriate, to repay a portion of the interfund loans. As future tax increment financing receipts are collected, the City should transfer the appropriate amounts to repay the Enterprise, Water and Sewer Fund interfund loans.

Response – The City will ensure certification complies with Chapter 403 and only includes allowable debt approved by the City Council prior to certification. The City will also repay interfund loans by transferring the appropriate amounts as future tax increment financing receipts are collected.

Conclusion – Response accepted.

- (13) Financial Condition – The City had deficit balances of \$85,721 and \$228,672 in the Special Revenue, Road Use Tax and Enterprise, Water Fund, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial position.

Response – The City will look into ways to eliminate deficits.

Conclusion – Response accepted.

- (14) Chief Wapello Days – In July 2010, the City donated \$5,103 to the non-profit organization Chief Wapello Days, Inc. The amount donated was collected by the City through fundraising for the Chief Wapello Days celebration held annually in the City.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, Section 31 states, “No public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the General Assembly.”

City of Wapello

Schedule of Findings

Year ended June 30, 2011

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including requesting the return of the funds to the City.

Response – The City will consult legal counsel.

Conclusion – Response accepted.

- (15) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires the City to report and remit obligations, including checks outstanding for more than two years, to the Office of Treasurer of State annually. The City did not remit these obligations as required.

Recommendation – The City should review outstanding checks and items over two years old should be remitted to the Office of Treasurer of State as required.

Response – The City will review all outstanding checks for correctness and will consult legal counsel on outstanding checks.

Conclusion – Response accepted.

- (16) 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 – We will obtain the images of both the front and back of cancelled checks as required by the Code of Iowa.

Conclusion – Response accepted.

- (17) I-JOBS Reporting – As part of the 2009 I-JOBS legislation, cities are required to identify and report quarterly to the Iowa Department of Transportation the specific projects or activities undertaken, their status and the amount of I-JOBS road funds spent to-date. The City has not submitted the required quarterly reports to the Iowa Department of Transportation.

Recommendation – The City should submit the required quarterly reports to the Iowa Department of Transportation.

Response – We will submit the quarterly report to the Department of Transportation. The next report will be submitted during the March 2012 reporting period.

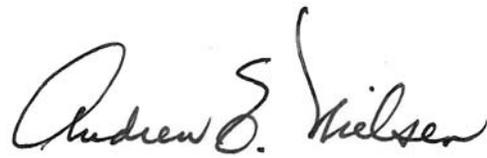
Conclusion – Response accepted.

City of Wapello

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Scott P. Boisen, Senior Auditor II
Michael J. Hackett, Senior Auditor
W. Brad Corley, Assistant Auditor
Ryan T. Jelsma, Assistant Auditor
Brandon J. Vogel, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State