



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

Mary Mosiman, CPA  
Auditor of State

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Des Moines, Iowa 50319-0004

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NEWS RELEASE

FOR RELEASE

March 17, 2014

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the City of Wapello, Iowa.

The City's receipts totaled \$4,126,966 for the year ended June 30, 2013, a 64% increase from 2012. The receipts included \$519,331 in property tax, \$321,738 from tax increment financing, \$109,406 from local option sales tax, \$783,804 from charges for service, \$277,140 from operating grants, contributions and restricted interest, \$74,217 from capital grants and contributions, \$1,163 from unrestricted interest on investments, \$7,268 from other general receipts and \$2,032,898 of bond/note proceeds.

Disbursements for the year ended June 30, 2013 totaled \$3,493,638, a 38% increase from the prior year, and included \$1,385,533 for debt service, \$339,781 for capital projects and \$336,642 for public safety. Also, disbursements for business type activities totaled \$686,616.

The significant increase in receipts and disbursements is due primarily to an increase in bond/note proceeds received and disbursed for ongoing capital projects and refunding prior debt issuances.

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/1320-0562-B00F.pdf>.

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**CITY OF WAPELLO**

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

**JUNE 30, 2013**

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**City of Wapello**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ron Durbin	Mayor	Jan 2014
Larry Wagg	Mayor Pro tem	Jan 2016
Josh R. Drayfahl	Council Member	Jan 2014
Shawn Maine	Council Member	Jan 2014
Kenny Marlette	Council Member	Jan 2014
Kermit L. Peterson	Council Member	Jan 2014
Troy Mitchell	Council Member	Jan 2016
Andy Truitt	Council Member	Jan 2016
Mike Delzell	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:

Report on the Financial Statements

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, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

*Supplementary and Other Information*

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 third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The 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.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 13 and 32 through 34, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 26, 2014 on our consideration of the City of Wapello's internal control over financial reporting and on 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 in considering the City of Wapello's internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

February 26, 2014

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

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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, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2013 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 144%, or approximately \$1,962,000, from fiscal year 2012 to fiscal year 2013. The increase was primarily due to receiving bonds proceeds of approximately \$1,832,000 in the current fiscal year. Also, capital grants, contributions and restricted interest increased approximately \$68,000, property tax receipts increased approximately \$23,000 and tax incrementing financing increased approximately \$37,000.
- Disbursements of the City's governmental activities increased 98%, or approximately \$1,388,000, from fiscal year 2012 to fiscal year 2013. Debt service disbursements increased approximately \$1,048,000, largely due to the refunding of prior debt issuances. Capital projects disbursements increased approximately \$340,000 and public safety disbursements increased approximately \$41,000 while public works disbursements decreased approximately \$35,000 and culture and recreation disbursements decreased approximately \$20,000.
- The City's total cash basis net position increased 127.6%, or approximately \$633,000, from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities increased approximately \$469,000 and the cash basis net position of the business type activities increased approximately \$164,000.

### **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 Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

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

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

## **BASIS OF ACCOUNTING**

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

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

The Cash Basis Statement of Activities and Net Position 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, 4) the Capital Projects Fund and 5) 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.

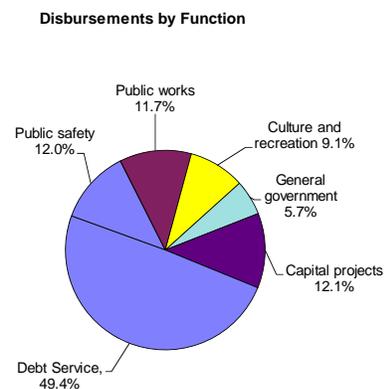
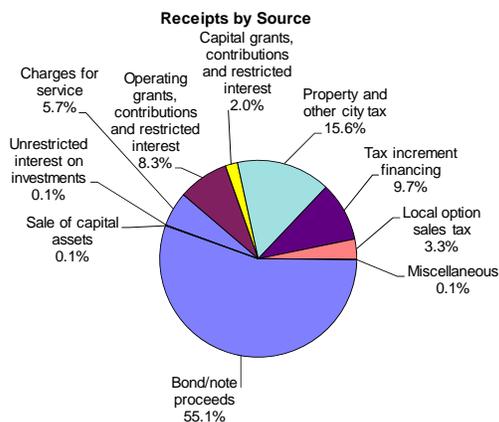
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased \$468,869 from a year ago, from \$367,679 to \$836,548. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service	\$ 188	198
Operating grants, contributions and restricted interest	277	263
Capital grants, contributions and restricted interest	68	-
General receipts:		
Property and other city tax	519	496
Tax increment financing	322	285
Local option sales tax	109	113
Unrestricted interest on investments	1	1
Bond proceeds	1,832	-
Sale of capital assets	3	-
Miscellaneous	4	5
Total receipts	3,323	1,361
Disbursements:		
Public safety	337	296
Public works	329	364
Culture and recreation	255	275
General government	161	147
Debt service	1,385	337
Capital projects	340	-
Total disbursements	2,807	1,419
Change in cash basis net position before transfers	516	(58)
Transfers, net	(47)	(163)
Change in cash basis net position	469	(221)
Cash basis net position beginning of year	368	589
Cash basis net position end of year	\$ 837	368



The City's total receipts for governmental activities increased 144%, or approximately \$1,962,000. The total cost of all programs and services increased approximately \$1,388,000, or 98%. The increase in receipts and disbursements was primarily the result of receiving general obligation corporate purpose and refunding bond proceeds. The bond proceeds were used to refund prior debt issuances and fund capital projects.

The City's property tax collections increased 4.6% during fiscal year 2013. The increase was primarily due to an increase in property valuations as property tax rates remained relatively consistent.

The cost of all governmental activities this year was approximately \$2,807,000 compared to approximately \$1,419,000 last year. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 16 and 17, the amount taxpayers ultimately financed for these activities was approximately \$2,274,000 because some of the cost was paid by those who directly benefited from the programs (\$188,398) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$344,640).

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 191	182
Sewer	404	372
Operating grants, contributions and restricted interest	-	129
Capital grants, contributions and restricted interest	7	12
General receipts:		
Bond/note proceeds	201	464
Total receipts	<u>803</u>	<u>1,159</u>
Disbursements:		
Water	326	196
Sewer	360	913
Total disbursements	<u>686</u>	<u>1,109</u>
Change in cash basis net position before transfers	117	50
Transfers, net	47	163
Change in cash basis net position	164	213
Cash basis net position beginning of year	129	(84)
Cash basis net position end of year	<u>\$ 293</u>	<u>129</u>

Total business type activities receipts for fiscal year 2013 were approximately \$803,000 compared to approximately \$1,159,000 last year due to a decrease in bond/note proceeds received during fiscal year 2013. Total disbursements for fiscal year 2013 decreased approximately \$423,000, primarily due to the completion of water and sewer improvement projects undertaken in previous years. Cash basis net position increased approximately \$164,000 over the prior year end.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Wapello completed the year, its governmental funds reported a combined cash balance of \$836,548, an increase of \$468,869 from last year's total of \$367,679. 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 increased \$142,738, or 79%, over the prior year. Approximately \$60,000 of this increase was due to the City receiving a REAP grant for a project that has yet to be undertaken.
- The Special Revenue, Road Use Tax Fund cash balance increased \$126,313 from the prior year, primarily due to a \$100,000 transfer from the Special Revenue, Local Option Sales Tax Fund to eliminate a deficit fund balance.
- The Special Revenue, Tax Increment Financing Fund cash balance increased \$11,642 from the prior year, primarily due to an increase in tax increment financing receipts.
- The Special Revenue, Local Option Sales Tax (LOST) Fund cash balance decreased \$185,297, from \$239,566 to \$54,359. The decrease was primarily due to transfers made to the General Fund, the Special Revenue, Road Use Tax Fund and the Enterprise, Water Fund.
- The Debt Service Fund cash balance increased \$6,046 from the prior year as note proceeds and transfers in were offset by the refunding and payment of prior debt issuances.
- The Capital Projects Fund was established in the current fiscal year with \$705,104 of bond proceeds to finance the 2012 Capital Improvements Projects (Division I & II). At the end of the fiscal year, \$339,781 had been spent on the projects, resulting in a cash balance of \$365,323 at June 30, 2013.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance increased \$73,676 to \$110,533. The increase in the cash balance is due to an increase in charges for services, due partially to increased water rates, as well as the receipt of bond proceeds to pay for the installation of new water meters.
- The Enterprise, Sewer Fund cash balance increased from \$91,996 to \$182,778. The increase is primarily due an increase in sewer receipts due to increased sewer rates, as well as the completion of a sewer construction project in the prior fiscal year.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on January 3, 2013 and resulted in an increase of approximately \$2,147,000 in budgeted receipts and other financing sources due to general obligation bond proceeds and REAP and COPS grants which were not originally budgeted. Budgeted disbursements also increased approximately \$2,147,000 for disbursements financed by the REAP and COPS grants, as well as the refunding of prior note issuances and projects financed by the general obligation bond issuance.

The City's receipts were \$50,296 more than budgeted, primarily due to water and sewer charges for service receipts exceeding the amounts budgeted.

Total disbursements were \$592,667 less than the amended budget. Disbursements in the debt service function exceeded the amount budgeted by \$312,572 due to the refunding of prior debt issuances while disbursements in the culture and recreation, capital projects and business type activities functions were under budget by \$62,456, \$680,041 and \$103,499, respectively.

**DEBT ADMINISTRATION**

At June 30, 2013, the City had \$3,239,565 of bonds, notes and other long-term debt outstanding, compared to \$2,652,635 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2013	2012
General obligation bonds	\$ 1,710,000	1,008,185
Revenue bonds	1,393,000	1,459,000
Sewer revenue project anticipation note	112,565	61,166
Water and sewer revenue bank loan	-	96,284
Iowa Department of Public Safety loan	24,000	28,000
Total	\$ 3,239,565	2,652,635

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 \$1,710,572, including annually appropriated tax increment financing rebate agreements of \$572, is significantly below its constitutional debt limit of approximately \$4.12 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 2014 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 August 1, 2015.

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

On October 18, 2012, the City approved two contracts: (1) a contract to install the last street, along with water and sewer, in the City’s TIF area (Patrick’s Subdivision) to allow for more homes to be constructed and (2) a contract to install sanitary sewers in the City’s TIF area (Industrial Park) to service residential and commercial lots not previously serviced by sanitary sewers. Construction on these two capital projects began in fiscal year 2013 and will continue through the upcoming fiscal year.

Voters in the City approved a referendum on May 7, 2013 to issue bonds for up to \$775,000 for the construction of a new swimming pool. The City is in the process of reviewing proposals for its construction.

On September 5, 2013, the City approved a loan and disbursement agreement providing for the issuance and securing the payment of \$393,000 of sewer revenue bonds. The City will be using the proceeds to replace aging sewer lines on Railroad Avenue, Jefferson Street, South 7<sup>th</sup> Street and South Cedar Street.

The Wapello Firemen have asked the City Council to consider building a new fire station.

## **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, City Clerk, 335 North Main Street, Wapello, Iowa 52653.

**City of Wapello**

## **Basic Financial Statements**

City of Wapello

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants and Contributions
<b>Functions/Programs:</b>				
Primary Government:				
Governmental activities:				
Public safety	\$ 336,642	9,140	38,237	-
Public works	329,076	137,378	198,783	-
Culture and recreation	254,828	20,565	40,120	67,500
General government	161,163	21,315	-	-
Debt service	1,385,532	-	-	-
Capital projects	339,781	-	-	-
Total governmental activities	2,807,022	188,398	277,140	67,500
Business type activities:				
Water	326,340	191,099	-	4,568
Sewer	360,276	404,307	-	2,149
Total business type activities	686,616	595,406	-	6,717
Total Primary Government	\$ 3,493,638	783,804	277,140	74,217
Component Unit:				
Wapello Fire and Rescue, Inc.	\$ 40,193	-	44,668	-
<b>General Receipts and Transfers:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Bond/note proceeds				
Sale of capital assets				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
<b>Cash Basis Net Position</b>				
Restricted:				
Nonexpendable:				
Library bequest				
Expendable:				
Urban renewal purposes				
Parks and recreation				
Police and fire purposes				
Library purposes				
Local option sales tax purposes				
Employee benefits				
Streets				
Debt service				
Capital projects				
Customer deposits				
Unrestricted				
<b>Total cash basis net position</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position				
Primary Government				Component Unit
Governmental Activities	Business Type Activities	Total		Wapello Fire and Rescue, Inc.
(289,265)	-	(289,265)		
7,085	-	7,085		
(126,643)	-	(126,643)		
(139,848)	-	(139,848)		
(1,385,532)	-	(1,385,532)		
(339,781)	-	(339,781)		
<u>(2,273,984)</u>	<u>-</u>	<u>(2,273,984)</u>		
-	(130,673)	(130,673)		
-	46,180	46,180		
-	(84,493)	(84,493)		
<u>(2,273,984)</u>	<u>(84,493)</u>	<u>(2,358,477)</u>		
				<u>4,475</u>
\$ 519,263	-	519,263		-
68	-	68		-
321,738	-	321,738		-
109,406	-	109,406		-
1,121	42	1,163		-
1,831,499	201,399	2,032,898		-
2,800	-	2,800		-
4,468	-	4,468		-
(47,510)	47,510	-		-
<u>2,742,853</u>	<u>248,951</u>	<u>2,991,804</u>		<u>-</u>
<u>468,869</u>	<u>164,458</u>	<u>633,327</u>		<u>4,475</u>
<u>367,679</u>	<u>128,853</u>	<u>496,532</u>		<u>128,674</u>
<u>\$ 836,548</u>	<u>293,311</u>	<u>1,129,859</u>		<u>133,149</u>
\$ 30,000	-	30,000		-
11,642	-	11,642		-
92,841	-	92,841		-
-	-	-		133,149
30,037	-	30,037		-
54,359	-	54,359		-
2,104	-	2,104		-
40,551	-	40,551		-
8,698	9,199	17,897		-
365,323	-	365,323		-
-	61,144	61,144		-
<u>200,993</u>	<u>222,968</u>	<u>423,961</u>		<u>-</u>
<u>\$ 836,548</u>	<u>293,311</u>	<u>1,129,859</u>		<u>133,149</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, 2013

	General	Road Use Tax
<b>Receipts:</b>		
Property tax	\$ 432,198	-
Tax increment financing	-	-
Other city tax	-	-
Licenses and permits	22,465	-
Use of money and property	5,226	-
Intergovernmental	125,164	198,783
Charges for service	152,004	-
Miscellaneous	34,985	-
Total receipts	<u>772,042</u>	<u>198,783</u>
<b>Disbursements:</b>		
Operating:		
Public safety	281,939	-
Public works	148,902	180,174
Culture and recreation	254,828	-
General government	161,163	-
Debt service	-	-
Capital projects	-	-
Total disbursements	<u>846,832</u>	<u>180,174</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(74,790)</u>	<u>18,609</u>
<b>Other financing sources (uses):</b>		
Bond proceeds, including \$9,200 of premium, net of \$27,701 of issue costs	53,495	-
Sale of capital assets	2,800	-
Operating transfers in	167,510	111,616
Operating transfers out	(6,277)	(3,912)
Total other financing sources (uses)	<u>217,528</u>	<u>107,704</u>
Change in cash balances	142,738	126,313
Cash balances beginning of year	181,133	(85,762)
Cash balances end of year	<u>\$ 323,871</u>	<u>40,551</u>
<b>Cash Basis Fund Balances</b>		
Nonspendable:		
Library bequest	\$ -	-
Restricted for:		
Urban renewal purposes	-	-
Parks and recreation	92,841	-
Library purposes	30,037	-
Local option sales tax purposes	-	-
Employee benefits	-	-
Streets	-	40,551
Debt service	-	-
Capital projects	-	-
Unassigned	200,993	-
Total cash basis fund balances	<u>\$ 323,871</u>	<u>40,551</u>

See notes to financial statements.

Special Revenue					
Tax	Local				
Increment	Option	Debt	Capital		
Financing	Sales Tax	Service	Projects	Nonmajor	Total
-	-	68	-	87,065	519,331
321,738	-	-	-	-	321,738
-	109,406	-	-	-	109,406
-	-	-	-	-	22,465
-	-	-	-	-	5,226
-	-	-	-	-	323,947
-	-	-	-	-	152,004
-	-	-	-	-	34,985
321,738	109,406	68	-	87,065	1,489,102
-	54,703	-	-	-	336,642
-	-	-	-	-	329,076
-	-	-	-	-	254,828
-	-	-	-	-	161,163
9,996	-	1,375,536	-	-	1,385,532
-	-	-	339,781	-	339,781
9,996	54,703	1,375,536	339,781	-	2,807,022
311,742	54,703	(1,375,468)	(339,781)	87,065	(1,317,920)
-	-	1,072,900	705,104	-	1,831,499
-	-	-	-	-	2,800
-	-	308,614	-	-	587,740
(300,100)	(240,000)	-	-	(84,961)	(635,250)
(300,100)	(240,000)	1,381,514	705,104	(84,961)	1,786,789
11,642	(185,297)	6,046	365,323	2,104	468,869
-	239,656	2,652	-	30,000	367,679
11,642	54,359	8,698	365,323	32,104	836,548
-	-	-	-	30,000	30,000
11,642	-	-	-	-	11,642
-	-	-	-	-	92,841
-	-	-	-	-	30,037
-	54,359	-	-	-	54,359
-	-	-	-	2,104	2,104
-	-	-	-	-	40,551
-	-	8,698	-	-	8,698
-	-	-	365,323	-	365,323
-	-	-	-	-	200,993
11,642	54,359	8,698	365,323	32,104	836,548

**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, 2013

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 181,332	404,307	585,639
Miscellaneous	9,767	-	9,767
Total operating receipts	191,099	404,307	595,406
Operating disbursements:			
Business type activities	173,018	127,083	300,101
Excess of operating receipts over operating disbursements	18,081	277,224	295,305
Non-operating receipts (disbursements):			
Interest on investments	42	-	42
General obligation bond proceeds	150,000	-	150,000
Revenue project anticipation note proceeds	-	51,399	51,399
Capital outlay	(133,726)	(88,825)	(222,551)
Debt service	(19,596)	(144,368)	(163,964)
Net non-operating receipts (disbursements)	(3,280)	(181,794)	(185,074)
Excess of receipts over disbursements	14,801	95,430	110,231
Capital contributions and transfers:			
Special assessments	4,568	2,149	6,717
Operating transfers in	62,000	-	62,000
Operating transfers out	(7,693)	(6,797)	(14,490)
Net capital contributions and transfers	58,875	(4,648)	54,227
Change in cash balances	73,676	90,782	164,458
Cash balances beginning of year	36,857	91,996	128,853
Cash balances end of year	\$ 110,533	182,778	293,311
<b>Cash Basis Fund Balances</b>			
Restricted for:			
Debt service	\$ -	9,199	9,199
Customer deposits	61,144	-	61,144
Unrestricted	49,389	173,579	222,968
Total cash basis fund balances	\$ 110,533	182,778	293,311

See notes to financial statements.

City of Wapello

Notes to Financial Statements

June 30, 2013

**(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. (Fire and Rescue) 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. Fire and Rescue 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, Fire and Rescue 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 Cash Basis Statement of Activities and Net Position (previously referred to as 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 Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

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

*Expendable restricted net position* results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position 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 option sales and services tax receipts and related disbursements.

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

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

The City reports the following major proprietary funds:

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

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

#### 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 position 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 are 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 Other Information. Disbursements during the year ended June 30, 2013 exceeded the amount budgeted in the debt service function.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2013 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.

**(3) Long-Term Debt**

Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 335,000	18,660	68,000	41,790	264,757	83,739
2015	355,000	15,310	70,000	39,750	251,287	74,067
2016	330,000	11,760	72,000	37,650	257,019	64,811
2017	230,000	8,460	75,000	35,490	232,677	55,224
2018	205,000	5,930	77,000	33,240	242,108	46,633
2019-2023	255,000	7,075	423,000	130,020	521,337	146,776
2024-2028	-	-	432,000	63,420	448,000	76,860
2029-2031	-	-	176,000	8,850	250,000	16,350
Total	\$ 1,710,000	67,195	1,393,000	390,210	2,467,185	564,460

The Code of Iowa requires principal and interest on general obligation bonds/notes be paid from the Debt Service Fund. However, \$19,596, \$30,903 and \$8,852 of general obligation note principal and interest were paid from the Enterprise, Water, the Enterprise, Sewer and the Special Revenue, Tax Increment Financing Funds, respectively, during the year.

### General Obligation Bonds

On November 1, 2012, the City issued \$2,000,000 of general obligation corporate purpose and refunding bonds to pay the costs of constructing street and water systems, sanitary sewer and storm water improvements and acquiring and installing water meters and emergency warning sirens. The bonds were also used to refund a bank loan dated September 17, 1998 and certain general obligation notes dated October 29, 2008, October 28, 2009 and December 4, 2009. The refunding was undertaken to reduce total debt service payments approximately \$72,000 and resulted in an economic gain (difference between the present value of debt service payments on the old and new debt) of approximately \$68,000. The City intends to repay the general obligation bonds with a combination of an ad valorem tax levied on all taxable property in the City and tax increment financing receipts. During the year ended June 30, 2013, the City paid principal of \$290,000 and interest of \$12,577. At June 30, 2013, the outstanding principal balance was \$1,710,000.

### 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 3.00% per annum. The bond was issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa. During the year ended June 30, 2013, the City paid principal of \$20,000 and interest of \$10,170 on the bond. At June 30, 2013, the outstanding principal balance was \$319,000.

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 3.00% 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. During the year ended June 30, 2013, the City paid principal of \$35,000 and interest of \$24,990. At June 30, 2013, the outstanding principal balance was \$798,000.

On July 1, 2011, the City entered into a loan agreement with the Iowa Finance Authority for the issuance of a sewer revenue bond of up to \$328,000 with interest at 3.00% 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. During the year ended June 30, 2013, the City paid principal of \$11,000 and interest of \$8,610. At June 30, 2013, the outstanding principal balance was \$276,000.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,675,000 of sewer revenue bonds issued in June 2005, April 2010 and July 1, 2011. The bonds are payable solely from sewer customer net receipts and are payable through 2031. Annual principal and interest payments on the bonds are expected to require less than 40% of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,783,210. For the current year, principal and interest paid and total customer net receipts were \$109,770 and \$277,224, 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 receipts at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

#### Sewer Revenue Project Anticipation Note

On April 20, 2012, the City issued an interest free sewer revenue loan and disbursement agreement interim project anticipation note to the Iowa Finance Authority for up to \$125,000 to be used for the purpose of paying costs in connection with planning, designing and constructing improvements and extensions to the municipal wastewater treatment system. The note was issued pursuant to the provisions of 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 an amount sufficient to repay the note. At June 30, 2013, the City had drawn \$112,565 against the project anticipation note.

#### 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. At June 30, 2013, the outstanding principal balance was \$24,000.

### **(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 5.78% of their annual covered salary and the City is required to contribute 8.67% 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, 2013, 2012 and 2011 were \$32,340, \$27,959 and \$26,916, 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, retirees and their spouses. There are six 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. The City also contributes to a savings account which is used to pay the deductibles on the plan. For the year ended June 30, 2013, the City contributed \$66,585 to the plan. The plan members did not contribute to the plan.

**(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Road Use Tax	\$ 3,912
	Local Option Sales Tax	78,000
	Employee Benefits	73,345
	Enterprise:	
	Water	6,638
	Sewer	5,615
		<u>167,510</u>
Special Revenue:	Special Revenue:	
Road Use Tax	Local Option Sales Tax	100,000
	Employee Benefits	11,616
		<u>111,616</u>
Debt Service	General	6,277
	Special Revenue:	
	Tax Increment Financing	300,100
	Enterprise:	
	Water	1,055
	Sewer	1,182
		<u>308,614</u>
Enterprise:	Special Revenue:	
Water	Local Option Sales Tax	62,000
Total		<u>\$ 649,740</u>

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

**(7) 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, 2013.

The City's approximate liability for earned vacation hours payable to employees at June 30, 2013, primarily relating to the General Fund, was approximately \$22,500. This liability has been computed based on rates of pay in effect at June 30, 2013.

**(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 Agreement**

The City has entered into a tax increment financing rebate agreement to assist in urban renewal projects by rebating incremental property tax paid by the developer 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 companies 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 is 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 City has rebated years one through four for a cumulative total of \$7,807, including \$1,144 rebated during the year ended June 30, 2013.

**(10) Construction Commitment**

The City has entered into a contract totaling \$613,134 for improvements in Patrick's Subdivision and Industrial Park, both in the City's urban renewal area. During the year ended June 30, 2013, costs of \$297,088 have been paid on the project. The balance of \$316,046 remaining on the contract at June 30, 2013 will be paid as work on the project progresses.

**(11) Subsequent Events**

On September 5, 2013, the City approved a resolution authorizing and approving a loan and disbursement agreement and providing for the issuance and securing the payment of \$393,000 of sewer revenue bonds to replace aging sewer lines in the City.

In November 2013, the City approved a resolution authorizing and approving the issuance of a \$775,000 general obligation swimming pool note.

**City of Wapello**

## **Other 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

Other Information

Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	519,331	-	519,331
Tax increment financing	321,738	-	321,738
Other city tax	109,406	-	109,406
Licenses and permits	22,465	-	22,465
Use of money and property	5,226	42	5,268
Intergovernmental	323,947	-	323,947
Charges for service	152,004	585,639	737,643
Special assessments	-	6,717	6,717
Miscellaneous	34,985	9,767	44,752
Total receipts	1,489,102	602,165	2,091,267
Disbursements:			
Public safety	336,642	-	336,642
Public works	329,076	-	329,076
Culture and recreation	254,828	-	254,828
General government	161,163	-	161,163
Debt service	1,385,532	-	1,385,532
Capital projects	339,781	-	339,781
Business type activities	-	686,616	686,616
Total disbursements	2,807,022	686,616	3,493,638
Deficiency of receipts under disbursements	(1,317,920)	(84,451)	(1,402,371)
Other financing sources (uses), net	1,786,789	248,909	2,035,698
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	468,869	164,458	633,327
Balances beginning of year	367,679	128,853	496,532
Balances end of year	\$ 836,548	293,311	1,129,859

See accompanying independent auditor's report.

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Budgeted Amounts		Final to
Original	Final	Total Variance
497,677	497,677	21,654
314,718	314,718	7,020
115,977	115,977	(6,571)
22,200	22,200	265
4,300	4,300	968
230,413	332,426	(8,479)
720,823	720,823	16,820
8,000	8,000	(1,283)
24,850	24,850	19,902
1,938,958	2,040,971	50,296
301,328	375,841	39,199
347,113	347,113	18,037
249,784	317,284	62,456
149,734	163,170	2,007
-	1,072,960	(312,572)
314,718	1,019,822	680,041
576,281	790,115	103,499
1,938,958	4,086,305	592,667
-	(2,045,334)	642,963
-	2,045,334	9,636
-	-	(532,735)
363,356	363,356	(133,176)
1,640,717	363,356	(766,503)

City of Wapello

Notes to Other Information – Budgetary Reporting

June 30, 2013

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the 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 Capital Projects 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 \$2,147,347. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amount budgeted in the debt service function.

**City of Wapello**

## **Supplementary Information**

## City of Wapello

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

As of and for the year ended June 30, 2013

	Special Revenue	Permanent	Total
	Employee Benefits	Library Bequest	
Receipts:			
Property tax	\$ 87,065	-	87,065
Disbursements:			
None	-	-	-
Excess of receipts over disbursements	87,065	-	87,065
Other financing uses:			
Operating transfers out	(84,961)	-	(84,961)
Change in cash balances	2,104	-	2,104
Cash balances beginning of year	-	30,000	30,000
Cash balances end of year	\$ 2,104	30,000	32,104
<b>Cash Basis Fund Balances</b>			
Nonspendable - library bequest	\$ -	30,000	30,000
Restricted for employee benefits	2,104	-	2,104
Total cash basis fund balances	\$ 2,104	30,000	32,104

See accompanying independent auditor's report.

City of Wapello  
Schedule of Indebtedness  
Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds/notes:			
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
Corporate purpose and refunding	Nov 1, 2012	1.00-2.00	2,000,000
Total			
Revenue bonds:			
Sewer	Jun 2, 2005	3.00%	\$ 447,000
Sewer	Apr 7, 2010	* 3.00	900,000
Sewer	Jul 1, 2011	* 3.00	328,000
Total			
Sewer revenue project anticipation note	Apr 20, 2012	0.00%	\$ 125,000
Bank loan:			
Water and sewer revenue	Sep 17, 1998	6.00%	\$ 190,000
Iowa Department of Public Safety loan:			
Fire truck	Feb 25, 2009	0.00%	\$ 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
29,155	-	29,155	-	447
94,030	-	94,030	-	3,917
885,000	-	885,000	-	17,073
-	2,000,000	290,000	1,710,000	12,577
<b>\$ 1,008,185</b>	<b>2,000,000</b>	<b>1,298,185</b>	<b>1,710,000</b>	<b>34,014</b>
339,000	-	20,000	319,000	10,170
833,000	-	35,000	798,000	24,990
287,000	-	11,000	276,000	8,610
<b>\$ 1,459,000</b>	<b>-</b>	<b>66,000</b>	<b>1,393,000</b>	<b>43,770</b>
61,166	51,399	-	112,565	-
96,284	-	96,284	-	6,404
28,000	-	4,000	24,000	-

**City of Wapello**

## City of Wapello

## Bond Maturities

June 30, 2013

General Obligation Bonds		
Corporate Purpose and Refunding		
Issued November 1, 2012		
Year	Interest	Amount
Ending	Rates	
June 30,		
2014	1.00%	\$ 335,000
2015	1.00	355,000
2016	1.00	330,000
2017	1.00	230,000
2018	1.10	205,000
2019	1.25	190,000
2020	2.00	15,000
2021	2.00	15,000
2022	2.00	15,000
2023	2.00	20,000
Total		<u>\$ 1,710,000</u>

Revenue Bonds								
Year	Sewer		Sewer		Sewer		Total	
	Issued June 2, 2005		Issued April 7, 2010		Issued July 1, 2011			
Ending	Interest	Amount	Interest	Amount	Interest	Amount		
June 30,	Rates		Rates		Rates			
2014	3.00%	\$ 20,000	3.00%	\$ 36,000	3.00%	\$ 12,000		68,000
2015	3.00	21,000	3.00	37,000	3.00	12,000		70,000
2016	3.00	22,000	3.00	38,000	3.00	12,000		72,000
2017	3.00	22,000	3.00	40,000	3.00	13,000		75,000
2018	3.00	23,000	3.00	41,000	3.00	13,000		77,000
2019	3.00	24,000	3.00	42,000	3.00	14,000		80,000
2020	3.00	24,000	3.00	44,000	3.00	14,000		82,000
2021	3.00	25,000	3.00	45,000	3.00	14,000		84,000
2022	3.00	26,000	3.00	46,000	3.00	15,000		87,000
2023	3.00	27,000	3.00	48,000	3.00	15,000		90,000
2024	3.00	28,000	3.00	49,000	3.00	16,000		93,000
2025	3.00	28,000	3.00	51,000	3.00	16,000		95,000
2026	3.00	29,000	3.00	53,000	3.00	17,000		99,000
2027		-	3.00	54,000	3.00	17,000		71,000
2028		-	3.00	56,000	3.00	18,000		74,000
2029		-	3.00	58,000	3.00	19,000		77,000
2030		-	3.00	60,000	3.00	19,000		79,000
2031		-		-	3.00	20,000		20,000
Total		<u>\$ 319,000</u>		<u>\$ 798,000</u>		<u>\$ 276,000</u>		<u>1,393,000</u>

See accompanying independent auditor's report.

City of Wapello

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

For the Last Ten Years

	2013	2012	2011	2010
<b>Receipts:</b>				
Property and other city tax	\$ 519,331	496,541	470,392	455,657
Tax increment financing	321,738	284,508	254,595	222,588
Local option sales tax	109,406	112,723	156,431	96,180
Licenses and permits	22,465	22,769	21,766	23,494
Use of money and property	5,226	4,596	6,211	4,468
Intergovernmental	323,947	241,040	235,413	254,831
Charges for service	152,004	155,271	152,792	143,379
Miscellaneous	34,985	42,795	98,253	123,614
<b>Total</b>	<b>\$ 1,489,102</b>	<b>1,360,243</b>	<b>1,395,853</b>	<b>1,324,211</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	\$ 336,642	296,015	329,383	304,288
Public works	329,076	364,085	364,237	311,414
Culture and recreation	254,828	274,294	358,601	270,496
General government	161,163	147,258	104,361	166,137
Debt service	1,385,532	336,804	238,019	50,350
Capital projects	339,781	-	-	-
<b>Total</b>	<b>\$ 2,807,022</b>	<b>1,418,456</b>	<b>1,394,601</b>	<b>1,102,685</b>

See accompanying independent auditor's report.

2009	2008	2007	2006	2005	2004
430,545	427,218	399,536	383,917	379,516	388,312
214,121	193,892	46,601	103,795	97,319	60,240
95,377	83,314	-	-	-	-
27,991	20,999	21,486	19,373	20,114	19,606
13,720	19,544	28,290	10,014	13,208	11,283
405,834	208,746	198,387	324,316	197,004	365,128
134,384	140,549	135,330	134,159	133,396	127,059
83,750	91,940	122,621	106,014	143,952	98,564
1,405,722	1,186,202	952,251	1,081,588	984,509	1,070,192
515,199	281,161	163,328	330,627	195,402	166,751
375,854	359,504	276,829	301,510	350,321	305,250
284,172	234,978	313,630	194,706	194,587	203,080
118,079	139,740	117,799	133,330	130,106	127,951
33,567	33,189	16,595	201,861	61,172	61,781
-	-	-	-	-	-
1,326,871	1,048,572	888,181	1,162,034	931,588	864,813

**City of Wapello**



OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

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Auditor of State

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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 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, the 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, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 26, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Wapello's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Wapello's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Wapello's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and 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 in internal control described in the accompanying Schedule of Findings as items (A) and (B) 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 (C) and (D) 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, 2013 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

The City of Wapello's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Wapello's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

February 26, 2014

City of Wapello

Schedule of Findings

Year ended June 30, 2013

**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, preparing 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 existing operating procedures and implement additional procedures where possible.

Conclusion – Response accepted.

City of Wapello

Schedule of Findings

Year ended June 30, 2013

- (B) Utility Reconciliations – Although a reconciliation of utility billings, collections and delinquent accounts is performed each billing cycle, there is no independent review of the reconciliation and variances identified by the reconciliations are not resolved.

Recommendation – Procedures should be established to ensure identified utility reconciliation variances are resolved timely. In addition, an independent person should review the reconciliations. Evidence of review of the reconciliations should be indicated by the signature or initials of the independent reviewer and the date of the review.

Response – The City will investigate variances at the time of reconciliation. We will identify an individual to review the reconciliations.

Conclusion – Response accepted.

- (C) Computer Systems – The City does not have written policies or procedures for:

- Requiring password changes because software does not require the user to change log-ins/passwords, preventing the reuse of the same password and preventing employees from sharing passwords.
- 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 to improve the City's control over its computer systems.

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

Conclusion – Response accepted.

- (D) 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., (Fire and Rescue) 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.

Fire and Rescue does not maintain an investment register showing certificate of deposit activity.

City of Wapello

Schedule of Findings

Year ended June 30, 2013

Recommendation – Fire and Rescue 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.

Response – Fire and Rescue will review the existing operating procedures and implement additional procedures where possible.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Wapello

Schedule of Findings

Year ended June 30, 2013

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in 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 future budgets before disbursements exceed the budget.

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	Police vehicle repairs	\$ 1,379
	Urban renewal development agreement	*
Troy Mitchell, Council Member, Owner of Mitchell Arm Ammo	Ammo, guns and gun sling for police	1,000
Larry Wagg, Council Member, owner of Brown's Repair	Lawnmower repair and supplies	642
Todd Shutt, Board of Adjustment/ Parks and Recreation Board Member	Power washing, painting, tiling and tree cutting	7,767

\* Total amount of this agreement is based on rebate of future property tax and, accordingly, the amount is unknown at June 30, 2013. During the year ended June 30, 2013, the City paid \$1,144 under this agreement.

The transactions with City Council Member Mitchell, Council Member Wagg and the police vehicle repair transactions with Council Member Maine 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.

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

City of Wapello

Schedule of Findings

Year ended June 30, 2013

The transactions with Parks and Recreation Board Member Shutt may represent a conflict of interest since the total transactions exceeded \$1,500 during the fiscal year and the transactions were not competitively bid.

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

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

In addition, the Briggs Center and various parks and recreation accounts were not included in the City's computerized accounting system.

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 City Council on a monthly basis.

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

Conclusion – Response accepted.

- (9) Payment of General Obligation Notes – Principal and interest on the City's 2008 and 2009 general obligation notes were paid from the Enterprise, Water and Sewer 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 then be made from the Debt Service Fund as required.

City of Wapello

Schedule of Findings

Year ended June 30, 2013

Response – The City will implement procedures to ensure general obligation note payments are made from the Debt Service Fund.

Conclusion – Response accepted.

- (10) 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 and will remit items over two years old to the State Treasurer.

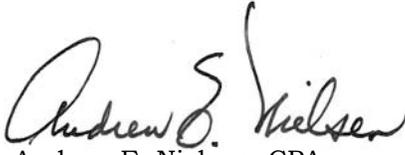
Conclusion – Response accepted.

City of Wapello

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager  
Brandon J. Vogel, Senior Auditor  
Joshua W. Ostrander, Staff Auditor  
James P. Moriarty, Assistant Auditor  
Miranda A. Shipman, Assistant Auditor



Andrew E. Nielsen, CPA  
Deputy Auditor of State