



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

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Mary Mosiman, CPA  
Auditor of State

NEWS RELEASE

FOR RELEASE

March 2, 2015

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 \$3,149,176 for the year ended June 30, 2014, a 24% decrease from 2013. The receipts included \$529,190 in property tax, \$330,625 from tax increment financing, \$141,845 from local option sales tax, \$864,034 from charges for service, \$292,234 from operating grants, contributions and restricted interest, \$6,347 from capital grants and contributions, \$1,247 from unrestricted interest on investments, \$19,344 from other general receipts and \$964,310 of bond/note proceeds.

Disbursements for the year ended June 30, 2014 totaled \$3,128,309, a 10% decrease from the prior year, and included \$1,103,141 for capital projects, \$370,783 for debt service and \$358,653 for public safety. Also, disbursements for business type activities totaled \$671,879.

The significant decrease in receipts and disbursements is due primarily to bond proceeds received in the prior year and disbursed to refund debt.

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/1420-0562-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, 2014**

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## City of Wapello

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2014)</b>		
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
<b>(After January 2014)</b>		
Shawn Maine	Mayor	Jan 2016
Kenny Marlette	Mayor Pro tem	Jan 2018
Troy Mitchell	Council Member	Jan 2016
Brett Shafer	Council Member	Jan 2016
Andy Truitt	Council Member	Jan 2016
Larry Wagg	Council Member	Jan 2016
Roger Noble	Council Member	Jan 2018
Eric Small	Council Member	Jan 2018
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, 2014, 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, 2014, and the respective changes in its 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, 2013 (which are not presented herein) and expressed unmodified 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 12 and 28 through 30, 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 January 27, 2015 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

January 27, 2015



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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, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2014 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities decreased 30.4%, or approximately \$1,010,000, from fiscal year 2013 to fiscal year 2014. The decrease was primarily due to less bond proceeds received in the current year.
- Disbursements of the City's governmental activities decreased 12.5%, or approximately \$350,000, from fiscal year 2013 to fiscal year 2014. Debt service disbursements decreased approximately \$1,014,000, largely due to the refunding of debt issuances in the prior year. This decrease was partially offset by an increase in capital projects disbursements of approximately \$763,000, due primarily to construction of a swimming pool.
- The City's total cash basis net position increased 1.8%, or approximately \$21,000, from June 30, 2013 to June 30, 2014. Of this amount, the net position of the governmental activities decreased approximately \$107,000 and the net position of the business type activities increased approximately \$128,000.

### **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, debt service and capital projects. 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.

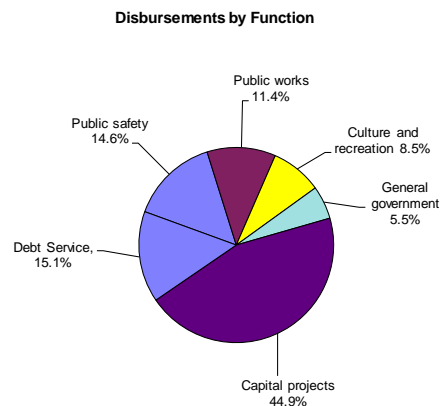
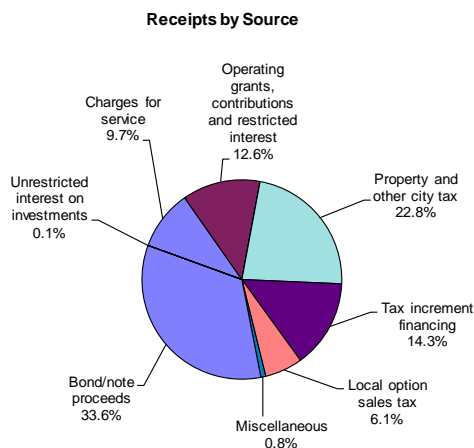
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

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 decreased from approximately \$837,000 to approximately \$729,000 during the year. 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,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service	\$ 224	188
Operating grants, contributions and restricted interest	292	277
Capital grants and contributions	-	68
General receipts:		
Property and other city tax	529	519
Tax increment financing	331	322
Local option sales tax	142	109
Unrestricted interest on investments	1	1
Bond/note proceeds	775	1,832
Sale of capital assets	-	3
Miscellaneous	19	4
Total receipts	2,313	3,323
Disbursements:		
Public safety	359	337
Public works	282	329
Culture and recreation	208	255
General government	134	161
Debt service	371	1,385
Capital projects	1,103	340
Total disbursements	2,457	2,807
Change in cash basis net position before transfers	(144)	516
Transfers, net	36	(47)
Change in cash basis net position	(108)	469
Cash basis net position beginning of year	837	368
Cash basis net position end of year	\$ 729	837



The City's total receipts for governmental activities decreased 30.4%, or approximately \$1,010,000 from the prior year. The total cost of all programs and services decreased approximately \$350,000, or 12.5%. The decrease in receipts and disbursements was primarily the result of bond proceeds received from general obligation corporate purpose and refunding bonds issued in the prior fiscal year which were disbursed to refund prior debt issuances and fund capital improvement projects. Capital projects disbursements increased over the prior year due to construction of a swimming pool.

The City's property tax collections increased 1.9% during fiscal year 2014. The increase was primarily due to an increase in taxable property valuations as property tax rates remained relatively consistent.

The cost of all governmental activities this year was approximately \$2,457,000, compared to approximately \$2,807,000 last year. However, as shown in the Statement of Activities and Net Position on pages 14 and 15, the amount taxpayers ultimately financed for these activities was \$1,940,666 because some of the cost was paid by those who directly benefited from the programs (\$223,530) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$292,234).

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year Ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 209	191
Sewer	432	404
Operating grants, contributions and restricted interest	-	-
Capital grants and contributions	6	7
General receipts:		
Bond/note proceeds	189	201
Total receipts	<u>836</u>	<u>803</u>
Disbursements:		
Water	176	326
Sewer	496	360
Total disbursements	<u>672</u>	<u>686</u>
Change in cash basis net position before transfers	164	117
Transfers, net	<u>(36)</u>	47
Change in cash basis net position	128	164
Cash basis net position beginning of year	<u>293</u>	<u>129</u>
Cash basis net position end of year	<u>\$ 421</u>	<u>293</u>

Total business type activities receipts for fiscal year 2014 were approximately \$836,000 compared to approximately \$803,000 last year due to an increase in charges for water and sewer services during fiscal year 2014. Total disbursements for fiscal year 2014 decreased approximately \$14,000, or 2%. Cash basis net position increased approximately \$128,000 over the prior year.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Wapello completed the year, its governmental funds reported a combined cash balance of \$729,350, a decrease of \$107,198 from last year's total of \$836,548. 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 \$113,182, or 34.9%, from the prior year. This increase was primarily due to a \$73,228 decrease in operating disbursements.
- The Special Revenue, Road Use Tax Fund cash balance increased \$73,041 from the prior year, primarily due to an increase in intergovernmental receipts and a decrease in public works disbursements. Prior year disbursements included more for street projects than current year disbursements.
- The Special Revenue, Tax Increment Financing Fund cash balance increased \$10,924 from the prior year, primarily due to an increase in tax increment financing receipts and a decrease in debt service disbursements. Transfers out totaled \$319,415 for repayment of tax increment financing obligations.
- The Special Revenue, Local Option Sales Tax (LOST) Fund cash balance increased \$25,712. The increase was primarily due to an increase in local option sales tax receipts.
- The Debt Service Fund cash balance decreased \$8,605 from the prior year. Receipts increased \$6,855 over the prior year. Disbursements decreased \$1,005,039 from the prior year due to debt refunded in the prior year.
- The Capital Projects Fund cash balance decreased \$328,141 from the prior year. The City received \$775,000 of note proceeds during the year to finance the swimming pool project. Disbursements for the year were \$1,103,141 and the ending cash balance was \$37,182 at June 30, 2014.

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

- The Enterprise, Water Fund cash balance increased \$5,034 to \$115,567. The increase in the cash balance is due partially to increased water rates. In addition, both capital outlay disbursements and bond proceeds decreased due to capital projects completed in the prior year.
- The Enterprise, Sewer Fund cash balance increased from \$182,778 to \$305,809. The increase is primarily due to an increase in sewer rates, and a transfer in from the Special Revenue, Tax Increment Financing Fund for the partial repayment of an advance from the Enterprise, Sewer Fund.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on January 16, 2014 and resulted in an increase of \$787,873 in budgeted receipts and other financing sources due to general obligation note proceeds and a COPS grant not originally budgeted. Budgeted disbursements also increased \$1,199,411 for the COPS grant, a police vehicle and the swimming pool and street projects.

The City's receipts were \$396,707 less than budgeted, primarily due to the City not receiving a CDBG grant which was included in the budget.

Total disbursements were \$2,124,417 less than the amended budget. Disbursements in the debt service function exceeded the amount budgeted due to the City not budgeting sufficiently for general obligation debt payments made during the year. Disbursements in the business type activities function were \$2,030,715 under budget due to a delay in progress on the wastewater treatment plant improvement project.

**DEBT ADMINISTRATION**

At June 30, 2014, the City had \$3,792,237 of bonds, notes and other long-term debt outstanding, compared to \$3,239,565 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2014	2013
General obligation bonds/notes	\$ 2,150,000	1,710,000
Revenue bonds	1,488,424	1,393,000
Sewer revenue project anticipation note	124,416	112,565
Iowa Department of Public Safety loan	20,000	24,000
Capital lease purchase agreement	9,397	-
Total	\$ 3,792,237	3,239,565

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 \$2,179,683, including a tax increment financing rebate agreement of \$286, is significantly below its constitutional debt limit of approximately \$4.1 million. Additional information about the City’s long-term debt is presented in Note 3 to the financial statements.

**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 2015 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 storm and sanitary sewers by September 1, 2020.

The City approved a \$2,003,937 contract for a wastewater treatment plant improvement project on June 5, 2014 to meet the Iowa Department of Natural Resources compliance schedule.

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

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.

## **Basic Financial Statements**

City of Wapello

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2014

	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	\$ 358,653	17,248	43,451	-
Public works	281,825	137,453	206,975	-
Culture and recreation	207,566	24,784	41,808	-
General government	134,462	44,045	-	-
Debt service	370,783	-	-	-
Capital projects	1,103,141	-	-	-
Total governmental activities	2,456,430	223,530	292,234	-
Business type activities:				
Water	176,086	208,258	-	4,316
Sewer	495,793	432,246	-	2,031
Total business type activities	671,879	640,504	-	6,347
Total Primary Government	\$ 3,128,309	864,034	292,234	6,347
Component Unit:				
Wapello Fire and Rescue, Inc.	\$ 33,733	-	41,942	-
<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				
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				
Fire and rescue 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.
(297,954)	-	(297,954)	
62,603	-	62,603	
(140,974)	-	(140,974)	
(90,417)	-	(90,417)	
(370,783)	-	(370,783)	
(1,103,141)	-	(1,103,141)	
(1,940,666)	-	(1,940,666)	
-	36,488	36,488	
-	(61,516)	(61,516)	
-	(25,028)	(25,028)	
(1,940,666)	(25,028)	(1,965,694)	
			8,209
\$ 522,267	-	522,267	-
6,923	-	6,923	-
330,625	-	330,625	-
141,845	-	141,845	-
1,220	27	1,247	-
775,000	189,310	964,310	-
19,344	-	19,344	-
36,244	(36,244)	-	-
1,833,468	153,093	1,986,561	-
(107,198)	128,065	20,867	8,209
836,548	293,311	1,129,859	133,149
\$ 729,350	421,376	1,150,726	141,358
\$ 30,000	-	30,000	-
22,566	-	22,566	-
113,542	-	113,542	-
-	-	-	141,358
34,372	-	34,372	-
80,071	-	80,071	-
8,793	-	8,793	-
113,592	-	113,592	-
93	11,034	11,127	-
37,182	-	37,182	-
-	63,891	63,891	-
289,139	346,451	635,590	-
\$ 729,350	421,376	1,150,726	141,358

City of Wapello

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

As of and for the year ended June 30, 2014

	General	Road Use Tax
<b>Receipts:</b>		
Property tax	\$ 435,531	-
Tax increment financing	-	-
Other city tax	-	-
Licenses and permits	26,277	-
Use of money and property	5,960	-
Intergovernmental	42,857	206,975
Charges for service	156,276	-
Miscellaneous	97,983	-
Total receipts	<u>764,884</u>	<u>206,975</u>
<b>Disbursements:</b>		
<b>Operating:</b>		
Public safety	292,520	-
Public works	139,056	142,769
Culture and recreation	207,566	-
General government	134,462	-
Debt service	-	-
Capital projects	-	-
Total disbursements	<u>773,604</u>	<u>142,769</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(8,720)</u>	<u>64,206</u>
<b>Other financing sources (uses):</b>		
Note proceeds	-	-
Transfers in	133,621	12,227
Transfers out	(11,719)	(3,392)
Total other financing sources (uses)	<u>121,902</u>	<u>8,835</u>
Change in cash balances	113,182	73,041
Cash balances beginning of year	323,871	40,551
Cash balances end of year	<u>\$ 437,053</u>	<u>113,592</u>
<b>Cash Basis Fund Balances</b>		
Nonspendable - Library bequest	\$ -	-
Restricted for:		
Urban renewal purposes	-	-
Parks and recreation	113,542	-
Library purposes	34,372	-
Local option sales tax purposes	-	-
Employee benefits	-	-
Streets	-	113,592
Debt service	-	-
Capital projects	-	-
Assigned for police equipment	2,725	-
Unassigned	286,414	-
Total cash basis fund balances	<u>\$ 437,053</u>	<u>113,592</u>

See notes to financial statements.

Special Revenue					
Tax	Local				
Increment	Option	Debt	Capital		Total
Financing	Sales Tax	Service	Projects	Nonmajor	
-	-	6,923	-	86,736	529,190
330,625	-	-	-	-	330,625
-	141,845	-	-	-	141,845
-	-	-	-	-	26,277
-	-	-	-	-	5,960
-	-	-	-	-	249,832
-	-	-	-	-	156,276
-	-	-	-	-	97,983
330,625	141,845	6,923	-	86,736	1,537,988
-	66,133	-	-	-	358,653
-	-	-	-	-	281,825
-	-	-	-	-	207,566
-	-	-	-	-	134,462
286	-	370,497	-	-	370,783
-	-	-	1,103,141	-	1,103,141
286	66,133	370,497	1,103,141	-	2,456,430
330,339	75,712	(363,574)	(1,103,141)	86,736	(918,442)
-	-	-	775,000	-	775,000
-	-	354,969	-	-	500,817
(319,415)	(50,000)	-	-	(80,047)	(464,573)
(319,415)	(50,000)	354,969	775,000	(80,047)	811,244
10,924	25,712	(8,605)	(328,141)	6,689	(107,198)
11,642	54,359	8,698	365,323	32,104	836,548
22,566	80,071	93	37,182	38,793	729,350
-	-	-	-	30,000	30,000
22,566	-	-	-	-	22,566
-	-	-	-	-	113,542
-	-	-	-	-	34,372
-	80,071	-	-	-	80,071
-	-	-	-	8,793	8,793
-	-	-	-	-	113,592
-	-	93	-	-	93
-	-	-	37,182	-	37,182
-	-	-	-	-	2,725
-	-	-	-	-	286,414
22,566	80,071	93	37,182	38,793	729,350

**Exhibit C**

## City of Wapello

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

As of and for the year ended June 30, 2014

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 196,269	431,135	627,404
Miscellaneous	11,989	1,111	13,100
Total operating receipts	208,258	432,246	640,504
Operating disbursements:			
Business type activities	174,159	140,908	315,067
Excess of operating receipts over operating disbursements	34,099	291,338	325,437
Non-operating receipts (disbursements):			
Interest on investments	27	-	27
Revenue bond proceeds, net of \$1,965 initiation fee	-	177,459	177,459
Revenue project anticipation note proceeds	-	11,851	11,851
Capital outlay	(1,927)	(224,590)	(226,517)
Debt service	-	(130,295)	(130,295)
Net non-operating receipts (disbursements)	(1,900)	(165,575)	(167,475)
Excess of receipts over disbursements	32,199	125,763	157,962
Capital contributions and transfers:			
Special assessments	4,316	2,031	6,347
Transfers in	-	35,000	35,000
Transfers out	(31,481)	(39,763)	(71,244)
Net capital contributions and transfers	(27,165)	(2,732)	(29,897)
Change in cash balances	5,034	123,031	128,065
Cash balances beginning of year	110,533	182,778	293,311
Cash balances end of year	\$ 115,567	305,809	421,376
<b>Cash Basis Fund Balances</b>			
Restricted for:			
Debt service	\$ -	11,034	11,034
Customer deposits	63,891	-	63,891
Unrestricted	51,676	294,775	346,451
Total cash basis fund balances	\$ 115,567	305,809	421,376

See notes to financial statements.

City of Wapello

Notes to Financial Statements

June 30, 2014

**(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 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. Enabling legislation did not result in any restricted net position.

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.

Assigned – Amounts the City Council intends to use for specific purposes.

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. During the year ended June 30, 2014, disbursements exceeded the amount budgeted in the debt service function.

**(2) Cash and Pooled Investments**

The City’s deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

**(3) Long-Term Debt**

Bonds and Notes Payable

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

Year Ending June 30,	General Obligation		Sewer		Total	
	Bonds and Notes		Revenue Bonds			
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 397,000	37,398	70,000	39,750	467,000	77,148
2016	373,000	32,651	72,000	37,650	445,000	70,301
2017	275,000	28,125	75,000	35,490	350,000	63,615
2018	251,000	24,313	77,000	33,240	328,000	57,553
2019	237,000	20,746	80,000	30,930	317,000	51,676
2020-2024	322,000	67,780	436,000	117,330	758,000	185,110
2025-2029	295,000	25,678	416,000	50,460	711,000	76,138
2030-2031	-	-	99,000	3,570	99,000	3,570
Total	\$ 2,150,000	236,691	1,325,000	348,420	3,475,000	585,111

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 \$447,000 of sewer revenue bonds 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 bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa. During the year ended June 30, 2014, the City paid principal of \$20,000 and interest of \$9,570 on the bonds. At June 30, 2014, the outstanding principal balance was \$299,000.

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 \$900,000 of sewer revenue bonds 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 bonds were 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, 2014, the City paid principal of \$36,000 and interest of \$23,940. At June 30, 2014, the outstanding principal balance was \$762,000.

On July 1, 2011, the City entered into a loan agreement with the Iowa Finance Authority for the issuance of \$298,000 of sewer revenue bonds 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 bonds were 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, 2014, the City paid principal of \$12,000 and interest of \$8,280. At June 30, 2014, the outstanding principal balance was \$264,000.

On September 27, 2013, the City entered into a loan agreement with the Iowa Finance Authority (IFA) for the issuance of sewer revenue bonds of up to \$393,000 with interest at 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were 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 IFA upon request to reimburse the City for costs as they are incurred. At June 30, 2014, the City had drawn down \$179,424 of the authorized amount. An initiation fee of \$1,965 (.5% of the authorized borrowing for the sewer revenue bonds) was retained by IFA from the proceeds of the sewer revenue bonds during the year ended June 30, 2014. A final repayment schedule has not yet been adopted. During the year ended June 30, 2014, the City paid principal of \$16,000 and interest of \$975. At June 30, 2014, the outstanding principal balance was \$163,424.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,038,000 of sewer revenue bonds issued in June 2005, April 2010, July 2011 and September 2013. 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 44% of net receipts. The total principal and interest remaining to be paid on the bonds issued in June 2005, April 2010 and July 2011 is \$1,673,420. For the current year, principal and interest paid and total customer net receipts were \$126,765 and \$291,338, 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, 2014, the City had drawn \$124,416 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 fire truck. The loan is to be repaid in 20 semi-annual installments of \$2,000 beginning on November 1, 2009. At June 30, 2014, the outstanding principal balance was \$20,000.

Capital Lease Purchase Agreement

The City entered into a capital lease purchase agreement to lease a mower with a cost of \$14,515. The following is a schedule of future minimum lease payments, including interest at 5.75% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2014.

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Amount</u>
2015	\$ 5,118
2016	<u>5,118</u>
Total minimum lease payments	10,236
Less amount representing interest	<u>839</u>
Present value of net minimum lease payments	<u>\$ 9,397</u>

Payments under the capital lease purchase agreement totaled \$5,118 for the year ended June 30, 2014.

**(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 5.95% of their annual covered salary and the City is required to contribute 8.93% 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, 2014, 2013 and 2012 were \$30,231, \$32,340 and \$27,959, respectively, equal to the required contributions for each year.

**(5) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road Use Tax	\$ 3,392
	Local Option Sales Tax	50,000
	Employee Benefits	67,820
	Enterprise:	
	Water	7,172
	Sewer	5,237
		<u>133,621</u>
Special Revenue:	Special Revenue:	
Road Use Tax	Employee Benefits	<u>12,227</u>
Debt Service	General	11,719
	Special Revenue:	
	Tax Increment Financing	284,415
	Enterprise:	
	Water	24,309
	Sewer	34,526
		<u>354,969</u>
Enterprise:	Special Revenue:	
Sewer	Tax Increment Financing	<u>35,000</u>
Total		<u>\$ 535,817</u>

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

**(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, 2014.

The City's approximate liability for earned vacation hours payable to employees at June 30, 2014, primarily relating to the General Fund and the Enterprise, Water Fund, was approximately \$22,300. This liability has been computed based on rates of pay in effect at June 30, 2014.

**(7) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Rebate 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 five for a cumulative total of \$8,093, including \$286 rebated during the year ended June 30, 2014. As of June 30, 2014, the balance remaining to be paid is \$286.

**(9) Interfund Loans**

The detail of interfund loans at June 30, 2014 is as follows:

Due From	Due To	Amount
Special Revenue:	Enterprise:	
Tax Increment Financing	Sewer	<u>\$ 193,539</u>

The loan represents amounts paid from the Enterprise, Sewer Fund 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. During the year ended June 30, 2014, \$35,000 was repaid to the Enterprise, Sewer Fund.

**(10) Construction Commitments**

The City has entered into four contracts totaling \$3,137,760 for swimming pool, street and sewer improvements. During the year ended June 30, 2014, costs of \$796,768 have been paid on the projects. The balance of \$2,340,992 remaining on the contracts at June 30, 2014 will be paid as work on the projects progress.

**(11) Subsequent Event**

On August 7, 2014, the City approved a resolution authorizing and approving the issuance of a \$2,000,000 sewer revenue bond for wastewater treatment plant improvement project to meet the Iowa Department of Natural Resources compliance schedule.

**(12) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and other information.

## **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, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Total
<b>Receipts:</b>			
Property tax	\$ 529,190	-	529,190
Tax increment financing	330,625	-	330,625
Other city tax	141,845	-	141,845
Licenses and permits	26,277	-	26,277
Use of money and property	5,960	27	5,987
Intergovernmental	249,832	-	249,832
Charges for service	156,276	627,404	783,680
Special assessments	-	6,347	6,347
Miscellaneous	97,983	13,100	111,083
Total receipts	1,537,988	646,878	2,184,866
<b>Disbursements:</b>			
Public safety	358,653	-	358,653
Public works	281,825	-	281,825
Culture and recreation	207,566	-	207,566
Community and economic development	-	-	-
General government	134,462	-	134,462
Debt service	370,783	-	370,783
Capital projects	1,103,141	-	1,103,141
Business type activities	-	671,879	671,879
Total disbursements	2,456,430	671,879	3,128,309
Deficiency of receipts under disbursements	(918,442)	(25,001)	(943,443)
Other financing sources, net	811,244	153,066	964,310
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(107,198)	128,065	20,867
Balances beginning of year	836,548	293,311	1,129,859
Balances end of year	\$ 729,350	421,376	1,150,726

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
512,471	512,471	16,719
324,511	324,511	6,114
120,147	120,147	21,698
20,925	20,925	5,352
2,900	2,900	3,087
740,210	753,083	(503,251)
822,886	822,886	(39,206)
6,800	6,800	(453)
17,850	17,850	93,233
2,568,700	2,581,573	(396,707)
313,312	360,679	2,026
348,708	348,708	66,883
243,572	255,292	47,726
573	573	573
151,604	151,604	17,142
8,537	8,537	(362,246)
284,415	1,424,739	321,598
2,702,594	2,702,594	2,030,715
4,053,315	5,252,726	2,124,417
(1,484,615)	(2,671,153)	1,727,710
1,525,000	2,300,000	(1,335,690)
40,385	(371,153)	392,020
299,513	824,958	304,901
339,898	453,805	696,921

City of Wapello

Notes to Other Information – Budgetary Reporting

June 30, 2014

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 Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,199,411. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements exceeded the amount budgeted in the debt service function.



## **Supplementary Information**

**City of Wapello**

## 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, 2014

	Special		Total
	Revenue	Permanent	
	Employee	Library	
	Benefits	Bequest	
Receipts:			
Property tax	\$ 86,736	-	86,736
Disbursements:			
None	-	-	-
Excess of receipts over disbursements	86,736	-	86,736
Other financing uses:			
Transfers out	(80,047)	-	(80,047)
Change in cash balances	6,689	-	6,689
Cash balances beginning of year	2,104	30,000	32,104
Cash balances end of year	\$ 8,793	30,000	38,793
<b>Cash Basis Fund Balances</b>			
Nonspendable - library bequest	-	30,000	30,000
Restricted for employee benefits	8,793	-	8,793
Total cash basis fund balances	\$ 8,793	30,000	38,793

See accompanying independent auditor's report.

City of Wapello  
Schedule of Indebtedness  
Year ended June 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds/ notes:			
Corporate purpose and refunding	Nov 1, 2012	1.00-2.00%	\$ 2,000,000
Swimming pool	Nov 20, 2013	2.85	775,000
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	298,000
Sewer	Sep 27, 2013	* 1.75	393,000
Total			
Sewer revenue project anticipation note	Apr 20, 2012	0.00%	\$ 125,000
Iowa Department of Public Safety loan:			
Fire truck	Feb 25, 2009	0.00%	\$ 40,000
Capital lease purchase agreement:			
Mower	Jul 8, 2013	5.75%	\$ 14,515

\* 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
1,710,000	-	335,000	1,375,000	18,660
-	775,000	-	775,000	11,719
<u>\$ 1,710,000</u>	<u>775,000</u>	<u>335,000</u>	<u>2,150,000</u>	<u>30,379</u>
319,000	-	20,000	299,000	9,570
798,000	-	36,000	762,000	23,940
276,000	-	12,000	264,000	8,280
-	179,424	16,000	163,424	975
<u>\$ 1,393,000</u>	<u>179,424</u>	<u>84,000</u>	<u>1,488,424</u>	<u>42,765</u>
<u>112,565</u>	<u>11,851</u>	<u>-</u>	<u>124,416</u>	<u>-</u>
24,000	-	4,000	20,000	-
-	14,515	5,118	9,397	-

**Schedule 3**

## City of Wapello

## Bond and Note Maturities

June 30, 2014

General Obligation Bonds/Notes								
Year Ending June 30,	Corporate Purpose and Refunding			Swimming Pool			Total	
	Issued November 1, 2012			Issued November 20, 2013				
	Interest			Interest				
	Rates	Amount		Rates	Amount			
2015	1.00%	\$ 355,000		2.85%	\$ 42,000			397,000
2016	1.00	330,000		2.85	43,000			373,000
2017	1.00	230,000		2.85	45,000			275,000
2018	1.10	205,000		2.85	46,000			251,000
2019	1.25	190,000		2.85	47,000			237,000
2020	2.00	15,000		2.85	49,000			64,000
2021	2.00	15,000		2.85	50,000			65,000
2022	2.00	15,000		2.85	51,000			66,000
2023	2.00	20,000		2.85	53,000			73,000
2024		-		2.85	54,000			54,000
2025		-		2.85	56,000			56,000
2026		-		2.85	57,000			57,000
2027		-		2.85	59,000			59,000
2028		-		2.85	61,000			61,000
2029		-		2.85	62,000			62,000
Total		<u>\$ 1,375,000</u>			<u>\$ 775,000</u>			<u>2,150,000</u>

Revenue Bonds								
Year Ending June 30,	Sewer		Sewer		Sewer		Total	
	Issued June 2, 2005		Issued April 7, 2010		Issued July 1, 2011			
	Interest		Interest		Interest			
	Rates	Amount	Rates	Amount	Rates	Amount		
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>\$ 299,000</u>		<u>\$ 762,000</u>		<u>\$ 264,000</u>		<u>1,325,000</u>

See accompanying independent auditor's report.

**City of Wapello**

City of Wapello

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

For the Last Ten Years

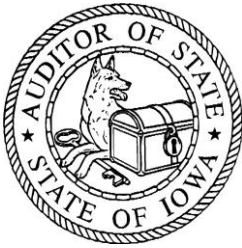
	2014	2013	2012	2011
<b>Receipts:</b>				
Property and other city tax	\$ 529,190	519,331	496,541	470,392
Tax increment financing	330,625	321,738	284,508	254,595
Local option sales tax	141,845	109,406	112,723	156,431
Licenses and permits	26,277	22,465	22,769	21,766
Use of money and property	5,960	5,226	4,596	6,211
Intergovernmental	249,832	323,947	241,040	235,413
Charges for service	156,276	152,004	155,271	152,792
Miscellaneous	97,983	34,985	42,795	98,253
<b>Total</b>	<b>\$ 1,537,988</b>	<b>1,489,102</b>	<b>1,360,243</b>	<b>1,395,853</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	\$ 358,653	336,642	296,015	329,383
Public works	281,825	329,076	364,085	364,237
Culture and recreation	207,566	254,828	274,294	358,601
General government	134,462	161,163	147,258	104,361
Debt service	370,783	1,385,532	336,804	238,019
Capital projects	1,103,141	339,781	-	-
<b>Total</b>	<b>\$ 2,456,430</b>	<b>2,807,022</b>	<b>1,418,456</b>	<b>1,394,601</b>

See accompanying independent auditor's report.



2010	2009	2008	2007	2006	2005
455,657	430,545	427,218	399,536	383,917	379,516
222,588	214,121	193,892	46,601	103,795	97,319
96,180	95,377	83,314	-	-	-
23,494	27,991	20,999	21,486	19,373	20,114
4,468	13,720	19,544	28,290	10,014	13,208
254,831	405,834	208,746	198,387	324,316	197,004
143,379	134,384	140,549	135,330	134,159	133,396
123,614	83,750	91,940	122,621	106,014	143,952
1,324,211	1,405,722	1,186,202	952,251	1,081,588	984,509
304,288	515,199	281,161	163,328	330,627	195,402
311,414	375,854	359,504	276,829	301,510	350,321
270,496	284,172	234,978	313,630	194,706	194,587
166,137	118,079	139,740	117,799	133,330	130,106
50,350	33,567	33,189	16,595	201,861	61,172
-	-	-	-	-	-
1,102,685	1,326,871	1,048,572	888,181	1,162,034	931,588

**City of Wapello**



OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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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, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 27, 2015. 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) through (E) 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, 2014 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

January 27, 2015

City of Wapello

Schedule of Findings

Year ended June 30, 2014

**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) Financial reporting – preparing and posting journal entries.

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 documented 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, 2014

- (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 investigated and resolved timely. In addition, an independent person should review the reconciliations. Evidence of review of the reconciliations should be documented 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.

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, 2014

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.

- (E) Debit Card – A debit card is maintained by the Keck Memorial Library which is used to make small purchases. While credit cards are allowable, debit cards are not because amounts are deducted from the bank account prior to approval. The custody of the card is maintained by the individual who reviews the bank statements.

Recommendation – To strengthen internal controls and provide for prior approval of disbursements, the Library should eliminate the debit card capabilities from the account.

Response – The Library Board is looking into a credit only card to make small business purchases.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Wapello

Schedule of Findings

Year ended June 30, 2014

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

- (1) Certified Budget – Disbursements during year ended June 30, 2014 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, Mayor, owner of Midwest Rod Restoration	Police vehicle repair	\$ 17,955
	Urban renewal development agreement	286
Troy Mitchell, Council Member, owner of Mitchell Arm Ammo	Ammo for police	3,430
Larry Wagg, Council Member, owner of Brown's Repair	Lawnmower repair and supplies	333
Todd Shutt, Board of Adjustment/ Parks and Recreation Board Member	Power washing and tree cutting	2,410

The transactions with City Council Member Wagg does not represent a conflict of interest in accordance with Chapter 362.5(10) of the Code of Iowa since the cumulative total during the fiscal year was less than \$1,500.

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

The transactions with Mayor Maine for police vehicle repair, Parks and Recreation Board Member Shutt and City Council Member Mitchell may represent conflicts of interest since the total transactions exceeded \$1,500 during the fiscal year and the transactions were not competitively bid.



City of Wapello

Schedule of Findings

Year ended June 30, 2014

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) Revenue Bonds – No instances of non-compliance with the revenue bond resolutions were noted.
- (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.

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.

City of Wapello

Schedule of Findings

Year ended June 30, 2014

- (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 other items over two years old which 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.

- (11) Annual Urban Renewal Report – The annual urban renewal report was approved and certified to the Iowa Department of Management on or before December 1.

The amount reported by the City as TIF debt outstanding was understated by \$72,704 because the City reported the June 30, 2013 debt balances rather than the June 30, 2012 balances.

Recommendation – The City should ensure the correct debt amounts reported.

Response – We will correct the amounts in next years report.

Conclusion – Response accepted.

City of Wapello

Staff

This audit was performed by:

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

A handwritten signature in black ink, reading "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