



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_ December 13, 2004 \_\_\_\_\_ Contact: Andy Nielsen  
515/281-5834

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

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$1,398,718 for the year ended June 30, 2004, an 11 percent increase from 2003. The receipts included \$388,313 in property tax, \$60,240 from tax increment financing collections, \$476,249 from charges for service, \$363,826 from operating grants, contributions and restricted interest and \$110,090 from other general receipts.

Disbursements for the year totaled \$1,395,209, an 11 percent increase from the prior year, and included \$305,250 for public works, \$203,080 for culture and recreation, and \$166,751 for public safety. Also, disbursements for business type activities totaled \$376,396.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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**CITY OF WAPELLO**

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

**JUNE 30, 2004**

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**City of Wapello**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2004)</b>		
Roger Noble	Mayor	Jan 2004
Jim Keldgord	Mayor Pro tem	Jan 2004
Mike Chaplin	Council Member	Resigned
Andy Truitt (Appointed)	Council Member	Nov 2003
Kevin Karr	Council Member	Jan 2004
Todd Shutt	Council Member	Jan 2004
Jack Dotson	Council Member	Jan 2006
Eddie Fisher	Council Member	Jan 2006
Jim Moore	Council Member	Jan 2006
Celia Drayfahl	Clerk	Indefinite
Roger Huddle	Attorney	Resigned
Bill Mattews	Attorney	Indefinite
Jay Schweitzer and Tim Wink	Attorney	Indefinite
<b>(After January 2004)</b>		
Roger Noble	Mayor	Jan 2006
Jim Keldgord	Mayor Pro tem	Jan 2006
Jack Dotson	Council Member	Jan 2006
Eddie Fisher	Council Member	Jan 2006
Jim Moore	Council Member	Jan 2006
Andy Truitt	Council Member	Jan 2008
Randy Tillmann	Council Member	Jan 2008
Todd Shutt	Council Member	Jan 2008
Celia Drayfahl	Clerk	Indefinite
Jay Schweitzer and Tim Wink	Attorney	Indefinite

**City of Wapello**



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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Wapello, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Wapello's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

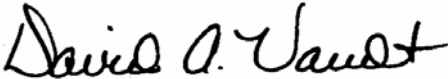
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Wapello as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.


As described in Note 8, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated August 5, 2004 on our consideration of the City of Wapello's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Wapello's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

August 5, 2004

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

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Management of the City of Wapello provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of the City is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

### **2004 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 17%, or approximately \$155,000, from fiscal 2003 to fiscal 2004. Property tax decreased approximately \$1,300. A \$154,000 Community Development Block Grant was received by the City and then disbursed to the Wapello Community Health Center. The City also received a \$54,000 Community Development Block Grant for water and sewer work in the Industrial park.
- Governmental activities disbursements increased 27%, or approximately \$219,000, in fiscal 2004 from fiscal 2003. Public safety disbursements increased 5%, or approximately \$7,200. Public works disbursements increased 12%, or approximately \$32,700. Culture and recreation disbursements increased 4%, or approximately \$7,700. General government disbursements increased 17%, or approximately \$18,000. The City received a \$154,000 grant for the Wapello Community Health Center. .
- The City's total cash basis net assets increased \$3,509 from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$51,000 and the assets of the business type activities decreased by approximately \$48,000.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.



## **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, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

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

### *Government-wide Financial Statement*

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

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

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

- Governmental Activities include public safety, public works, health and social services, culture and recreation, general government, debt service and capital projects. Property tax and state and federal 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, CDBG Grant, Tax Increment Financing and Wapello Volunteer Fire Department, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

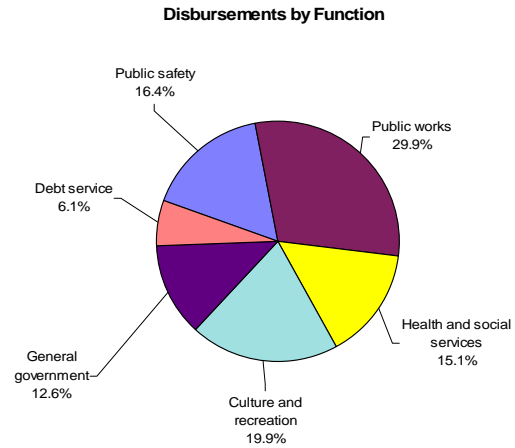
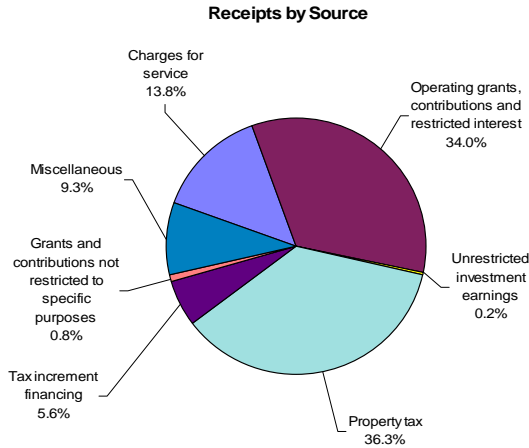
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$710 thousand to \$761 thousand. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		Year ended June 30, 2004
Receipts:		
Program receipts:		
Charges for service	\$	148
Operating grants, contributions and restricted interest		364
General receipts:		
Property tax		388
Tax increment financing collections		60
Grants and contributions not restricted to specific purposes		9
Unrestricted interest on investments		2
Miscellaneous		99
Total receipts		<u>1,070</u>
Disbursements:		
Public safety		167
Public works		305
Health and social services		154
Culture and recreation		203
General government		128
Debt service		62
Total disbursements		<u>1,019</u>
Increase in cash basis net assets		51
Cash basis net assets beginning of year		<u>710</u>
Cash basis net assets end of year	\$	<u><u>761</u></u>



The City's total receipts for governmental activities increased by 17%, or \$154,918. The total cost of all programs and services increased by \$218,861, or 27%, with no new programs added this year. The significant increase in receipts and disbursements was primarily the result of the City receiving a \$154,000 Community Development Block Grant that was disbursed to the Wapello Community Health Center.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	Year ended June 30, 2004
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 166
Sewer	162
Total receipts	328
Disbursements:	
Water	152
Sewer	224
Total disbursements	376
Decrease in cash basis net assets	(48)
Cash basis net assets beginning of year	276
Cash basis net assets end of year	\$ 228

Total business type activities receipts for the fiscal year were \$328,526 compared to \$341,587 last year. The sewer system required significant repair which increased disbursements.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Wapello completed the year, its governmental funds reported a combined fund balance of \$761,307, an increase of more than \$51,000 above last year's total of \$709,928. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance was \$452,191 this fiscal year end compared to \$440,554 last fiscal year. One of the factors contributing to the increase was the elimination of one full time police officer position.
- The Road Use Tax Fund cash balance was \$108,495 this fiscal year end compared to \$121,871 last fiscal year. The difference of \$13,376 was used to repair and maintain existing streets and to start building a new street.
- The Wapello Volunteer Fire Department Fund revenues increased 53% as a result of money received from the City and townships for the purchase of a brush truck and donations received for a rescue unit truck. Expenditures increased 39% due to the purchase of a brush truck.
- The CDBG Grant Fund received a \$154,000 Community Development Block subsequently disbursed to the Wapello Community Health Center.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance was \$166,833 at the end of the fiscal year compared to an ending balance of \$152,876 at the end of last fiscal year. The change was not significant.
- The Sewer Fund cash balance was \$61,373 at the end of the fiscal year compared to an ending balance of \$123,200 at the end of last fiscal year. The City experienced major problems with the sewer system this fiscal year. A manhole in a four way intersection collapsed, a street had to be closed to allow the sewer to be repaired and an alley had to be closed to allow the sewer to be repaired.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on June 21, 2004 and resulted in an increase in operating receipts and disbursements, primarily related to a \$154,000 community development block grant.

## DEBT ADMINISTRATION

At June 30, 2004, the City had \$587,427 in general obligation and other long-term debt outstanding. This represents a decrease of 11% from last year.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2004	2003
General obligation notes:		
Water and sewer improvements	\$ 161	167
Corporate purpose	165	175
Water and sewer construction	186	205
Lease purchase agreement:		
City hall building and water plant	76	111
Total	\$ 588	658

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

The City of Wapello's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees that will be charged for various City activities. Circumstances that could significantly affect its financial health in the future are as follows:

- Utility tax replacement revenue has been negatively impacted by a state settlement with Alliant Energy, which will reduce revenue by \$3,785.
- The business type activities include starting a project, which has been labeled North End Sewer Project. This project involves separating the storm and sanitary sewer in the north end of the City. A Community Development Block Grant and a State Revolving Fund (SRF) loan will fund this project. The estimated cost for this project will be over \$700,000. In order to qualify for the SRF loan, the City had to raise the sewer rates to cover the debt that will be incurred from this project. The sewer rates were raised August 1, 2004. The monthly revenue generated by raising the sewer rate will be approximately \$13,000 to \$14,000.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the City's citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Celia Drayfahl, City Clerk, 335 North Main Street, Wapello, Iowa, 52653.

## **Basic Financial Statements**

City of Wapello

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
<b>Functions / Programs:</b>			
Governmental activities:			
Public safety	\$ 166,751	9,200	18,404
Public works	305,250	112,241	176,903
Health and social services	154,000	-	154,000
Culture and recreation	203,080	23,551	14,519
General government	127,951	2,825	-
Debt service	61,781	-	-
Total governmental activities	1,018,813	147,817	363,826
Business type activities:			
Water	152,448	166,311	-
Sewer	223,948	162,121	-
Total business type activities	376,396	328,432	-
Total	\$ 1,395,209	476,249	363,826
<b>General Receipts:</b>			
Property and other city tax levied for:			
General purposes			
Tax increment financing			
Debt service			
Grants and contributions not restricted to specific purpose			
Unrestricted interest on investments			
Miscellaneous			
Total general receipts			
Change in cash basis net assets			
Cash basis net assets beginning of year, as restated			
Cash basis net assets end of year			
<b>Cash Basis Net Assets</b>			
Restricted:			
Streets			
Wapello Volunteer Fire Department			
Debt service			
Unrestricted			
<b>Total cash basis net assets</b>			

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(139,147)	-	(139,147)
(16,106)	-	(16,106)
-	-	-
(165,010)	-	(165,010)
(125,126)	-	(125,126)
(61,781)	-	(61,781)
(507,170)	-	(507,170)
-	13,863	13,863
-	(61,827)	(61,827)
-	(47,964)	(47,964)
(507,170)	(47,964)	(555,134)
349,283	-	349,283
60,240	-	60,240
39,030	-	39,030
8,603	-	8,603
2,589	94	2,683
98,804	-	98,804
558,549	94	558,643
51,379	(47,870)	3,509
709,928	276,076	986,004
\$ 761,307	228,206	989,513
\$ 108,495	-	108,495
186,213	-	186,213
17,914	29,495	47,409
448,685	198,711	647,396
\$ 761,307	228,206	989,513



City of Wapello

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

As of and for the year ended June 30, 2004

	Special Revenue		
	General	Road Use Tax	CDBG Grant
Receipts:			
Property tax	\$ 336,971	-	-
Tax increment financing collections	-	-	-
Other city tax	12,312	-	-
Licenses and permits	19,606	-	-
Use of money and property	8,065	-	-
Intergovernmental	25,957	176,903	154,000
Charges for service	127,059	-	-
Miscellaneous	30,211	709	-
Total receipts	560,181	177,612	154,000
Disbursements:			
Operating:			
Public safety	103,251	-	-
Public works	114,262	190,988	-
Health and social services	-	-	154,000
Culture and recreation	203,080	-	-
General government	127,951	-	-
Debt service	-	-	-
Total disbursements	548,544	190,988	154,000
Excess (deficiency) of receipts over (under) disbursements	11,637	(13,376)	-
Cash balances beginning of year, as restated	440,554	121,871	-
Cash balances end of year	\$ 452,191	108,495	-
<b>Cash Basis Fund Balances</b>			
Reserved:			
Debt service	\$ -	-	-
Unreserved:			
General fund	452,191	-	-
Special revenue funds	-	108,495	-
Capital projects fund	-	-	-
Total cash basis fund balances	\$ 452,191	108,495	-

See notes to financial statements.

Wapello Volunteer Fire Department	Nonmajor Governmental Funds	Total
-	37,652	374,623
-	60,240	60,240
-	1,377	13,689
-	-	19,606
3,218	-	11,283
8,268	-	365,128
-	-	127,059
67,644	-	98,564
79,130	99,269	1,070,192
63,500	-	166,751
-	-	305,250
-	-	154,000
-	-	203,080
-	-	127,951
-	61,781	61,781
63,500	61,781	1,018,813
15,630	37,488	51,379
170,583	(23,080)	709,928
186,213	14,408	761,307
-	17,914	17,914
-	-	452,191
186,213	60,240	354,948
-	(63,746)	(63,746)
186,213	14,408	761,307

**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, 2004

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 160,061	150,331	310,392
Special assessments	-	10,555	10,555
Miscellaneous	6,344	1,235	7,579
Total operating receipts	166,405	162,121	328,526
Operating disbursements:			
Business type activities	144,159	186,675	330,834
Excess (deficiency) of operating receipts over (under) operating disbursements	22,246	(24,554)	(2,308)
Non-operating disbursements:			
Debt service	(8,289)	(37,273)	(45,562)
Excess (deficiency) of receipts over (under) disbursements	13,957	(61,827)	(47,870)
Cash balances beginning of year, as restated	152,876	123,200	276,076
Cash balances end of year	\$ 166,833	61,373	228,206
<b>Cash Basis Fund Balances</b>			
Reserved for customer deposits	\$ 29,495	-	29,495
Unreserved	137,338	61,373	198,711
Total cash basis fund balances	\$ 166,833	61,373	228,206

See notes to financial statements.

City of Wapello

Notes to Financial Statements

June 30, 2004

**(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, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of 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.

Blended Component Unit

The Wapello Volunteer Fire Department was established as a non-profit corporation in accordance with Chapter 504A of the Code of Iowa. The Department is legally separate from the City but is so intertwined with the City that it is, in substance, the same as the City. The Department is reported as part of the City and blended as a Special Revenue Fund. The Department receives donations for the benefit of the Wapello Volunteer Fire Department. These donations are to be used to purchase items which are not included in the City's budget.

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

### B. Basis of Presentation

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

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

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts 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 road construction and maintenance.

The CDBG Grant Fund is used to account for a Community Development Block Grant received and passed through to the Wapello Community Health Center.

The Wapello Volunteer Fire Department Fund reports the transactions of a non-profit corporation which received donations for the benefit of the Wapello Fire Department.

The City reports the following major proprietary funds:

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

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Wapello 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.

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. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the health and social services and culture and recreation functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2004 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's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments at June 30, 2004 are as follows:

Type	Carrying Amount	Fair Value
U.S. government securities	\$ 30,000	30,075

The Wapello Volunteer Fire Department Fund's investments at June 30, 2004 consist of mutual funds with a fair value of \$38,361 which are not subject to risk categorization.

### (3) Notes Payable

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 37,078	28,383	65,461
2006	38,526	26,337	64,863
2007	40,049	24,213	64,262
2008	46,640	22,021	68,661
2009	48,347	19,415	67,762
2010 - 2014	211,197	58,216	269,413
2015 - 2019	89,675	14,204	103,879
Total	\$ 511,512	192,789	704,301

#### Lease Purchase Agreement

On June 25, 1993, the City entered into a lease-purchase agreement to renovate City Hall and update the City water plant. The total cost was \$350,000, with annual lease payments of \$41,290 for 12 years, including interest at 5.80% per annum. The following is a schedule of the future minimum lease payments, interest and the present value of net minimum lease payments under the agreement in effect at June 30, 2004.

Year Ending June 30,	Minimum Lease Payments	Less Amount Representing Interest	Present Value of Net Minimum Lease Payments
2005	\$ 41,290	4,403	36,887
2006	41,290	2,262	39,028
Total	\$ 82,580	6,665	75,915



**(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.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$14,193, \$13,980 and \$13,300, respectively, equal to the required contributions for each year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2004, primarily relating to the General Fund, is \$13,900. This liability has been computed based on rates of pay in effect at June 30, 2004.

**(6) 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.

**(7) Deficit Balance**

The Capital Projects Fund had a deficit balance of \$63,746 at June 30, 2004. The deficit is the result of a refund for the Emergency Watershed Protection Program grant in a prior year. The deficit balance will be eliminated through a transfer from the City's General Fund.

**(8) Accounting Change and Restatements**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a

government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The City reclassified the General, Fire Department and Water accounts to the Special Revenue, Fire Department Fund and Enterprise, Water Fund, respectively. Also, the Patrick's Subdivision account was reclassified from the Enterprise, Water Fund to the Enterprise, Sewer Fund. These reclassifications were made to better reflect the nature and activity of these accounts.

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Net assets June 30, 2003, as previously reported	\$ 727,977	258,027
General:		
Fire Department	(170,583)	-
Water	(18,049)	-
Special Revenue:		
Fire Department	170,583	-
Enterprise:		
Water	-	18,049
Net assets July 1, 2003, as restated	<u>\$ 709,928</u>	<u>276,076</u>

The following major fund beginning balances were restated:

	General Fund	Special Revenue Fund		Enterprise Funds	
		Fire Department	Water	Sewer	Customer Deposits
Balances at June 30, 2003, as previously reported	\$ 629,186	-	168,936	61,989	27,102
Reclassification of the Fire Department	(170,583)	170,583	-	-	-
Reclassification of Water	(18,049)	-	18,049	-	-
Reclassification of Customer Deposits	-	-	27,102	-	(27,102)
Reclassification of the Patrick Subdivision	-	-	(61,211)	61,211	-
Balances at July 1, 2003, as restated	<u>\$ 440,554</u>	<u>170,583</u>	<u>152,876</u>	<u>123,200</u>	<u>-</u>

**City of Wapello**

**Required Supplementary Information**

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 374,623	-	-
Tax increment financing collections	60,240	-	-
Other city tax	13,689	-	-
Licenses and permits	19,606	-	-
Use of money and property	11,283	94	3,218
Intergovernmental	365,128	-	8,268
Charges for service	127,059	310,392	-
Special assessments	-	10,555	-
Miscellaneous	98,564	7,485	67,644
Total receipts	1,070,192	328,526	79,130
Disbursements:			
Public safety	166,751	-	63,500
Public works	305,250	-	-
Health and social services	154,000	-	-
Culture and recreation	203,080	-	-
General government	127,951	-	-
Debt service	61,781	-	-
Business type activities	-	376,396	-
Total disbursements	1,018,813	376,396	63,500
Excess (deficiency) of receipts over (under) disbursements	51,379	(47,870)	15,630
Other financing sources, net	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	51,379	(47,870)	15,630
Balances beginning of year	709,928	276,076	170,583
Balances end of year	\$ 761,307	228,206	186,213

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
374,623	374,300	374,300	323
60,240	58,487	58,487	1,753
13,689	17,474	17,474	(3,785)
19,606	5,270	5,270	14,336
8,159	8,500	8,500	(341)
356,860	357,390	357,390	(530)
437,451	462,258	462,258	(24,807)
10,555	16,000	16,000	(5,445)
38,405	-	-	38,405
<u>1,319,588</u>	<u>1,299,679</u>	<u>1,299,679</u>	<u>19,909</u>
103,251	123,242	123,242	19,991
305,250	259,747	378,432	73,182
154,000	-	152,000	(2,000)
203,080	181,484	190,026	(13,054)
127,951	116,469	131,469	3,518
61,781	41,291	63,591	1,810
376,396	576,736	437,751	61,355
<u>1,331,709</u>	<u>1,298,969</u>	<u>1,476,511</u>	<u>144,802</u>
(12,121)	710	(176,832)	164,711
-	-	177,542	(177,542)
(12,121)	710	710	(12,831)
<u>815,421</u>	<u>891,784</u>	<u>891,784</u>	<u>(76,363)</u>
<u>803,300</u>	<u>892,494</u>	<u>892,494</u>	<u>(89,194)</u>

City of Wapello

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and 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 \$177,542. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the health and social services and culture and recreation functions.

**Other Supplementary Information**



City of Wapello

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

As of and for the year ended June 30, 2004

	Special Revenue	
	Tax Increment Financing	Debt Service
Receipts:		
Property tax	\$ -	37,652
Tax increment financing collections	60,240	-
Other city tax	-	1,377
Total receipts	60,240	39,029
Disbursements:		
Debt service	-	61,781
Excess (deficiency) of receipts over (under) disbursements	60,240	(22,752)
Cash balances beginning of year	-	40,666
Cash balances end of year	\$ 60,240	17,914
<b>Cash Basis Fund Balances</b>		
Reserved:		
Debt service	\$ -	17,914
Unreserved:		
Special revenue funds	60,240	-
Capital projects fund	-	-
Total cash basis fund balances	\$ 60,240	17,914

See accompanying independent auditor's report.

Capital Projects	Total
-	37,652
-	60,240
-	1,377
-	99,269
-	61,781
-	37,488
(63,746)	(23,080)
(63,746)	14,408
-	17,914
-	60,240
(63,746)	(63,746)
(63,746)	14,408

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City of Wapello  
Schedule of Indebtedness  
Year ended June 30, 2004

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Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Water and sewer improvements	Sep 17, 1998	6.00%	\$ 190,000
Corporate purpose	Jun 1, 2000	6.00	205,000
Water and sewer construction	May 9, 2002	5.00	227,665
Total			
Lease purchase agreement:			
City hall building and water plant	Jun 25, 1993	5.80%	\$ 350,000

See accompanying independent auditor's report.

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Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
167,402	6,531	160,871	10,047
175,000	10,000	165,000	10,491
204,790	19,149	185,641	9,835
<u>\$ 547,192</u>	<u>35,680</u>	<u>511,512</u>	<u>30,373</u>
<u>110,780</u>	<u>34,865</u>	<u>75,915</u>	<u>6,425</u>

**Schedule 3**

## City of Wapello

## Note Maturities

June 30, 2004

Year Ending June 30,	General Obligation Notes							Total
	Water and Sewer Improvement		Corporate Purpose		Water and Sewer Construction			
	Issued Sep 17, 1998		Issued Jun 1, 2000		Issued May 9, 2002			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2005	6.00%	\$ 6,923	6.00%	\$ 10,000	5.00%	\$ 20,155	37,078	
2006	6.00	7,339	6.00	10,000	5.00	21,187	38,526	
2007	6.00	7,779	6.00	10,000	5.00	22,270	40,049	
2008	6.00	8,245	6.00	15,000	5.00	23,395	46,640	
2009	6.00	8,740	6.00	15,000	5.00	24,607	48,347	
2010	6.00	9,265	6.00	15,000	5.00	25,866	50,131	
2011	6.00	9,820	6.00	15,000	5.00	27,189	52,009	
2012	6.00	10,410	6.00	15,000	5.00	20,972	46,382	
2013	6.00	11,034	6.00	20,000		-	31,034	
2014	6.00	11,696	6.00	20,000		-	31,696	
2015	6.00	12,398	6.00	20,000		-	32,398	
2016	6.00	13,142		-		-	13,142	
2017	6.00	13,931		-		-	13,931	
2018	6.00	14,766		-		-	14,766	
2019	6.00	15,383		-		-	15,383	
Total		<u>\$ 160,871</u>		<u>\$ 165,000</u>		<u>\$ 185,641</u>	<u>511,512</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 Two Years

	2004	2003
Receipts:		
Property tax	\$ 374,623	375,940
Tax increment financing collections	60,240	43,476
Other city tax	13,689	16,938
Licenses and permits	19,606	5,224
Use of money and property	11,283	16,535
Intergovernmental	365,128	247,483
Charges for service	127,059	124,214
Miscellaneous	98,564	85,464
	<u>1,070,192</u>	<u>915,274</u>
Total	\$ 1,070,192	915,274
Disbursements:		
Operating:		
Public safety	\$ 166,751	159,505
Public works	305,250	273,179
Health and social services	154,000	-
Culture and recreation	203,080	195,381
General government	127,951	109,695
Debt service	61,781	62,372
	<u>1,018,813</u>	<u>800,132</u>
Total	\$ 1,018,813	800,132

See accompanying independent auditor's report.

**City of Wapello**



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report on Compliance  
and on Internal Control over Financial Reporting

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Wapello, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 5, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that 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, 2004 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. Prior year statutory comments have been resolved except for items (2), (3), (5), (7), (8), (9) and (10).

Internal Control Over Financial Reporting

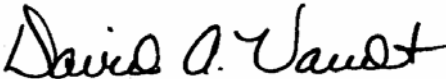
In planning and performing our audit, we considered the City of Wapello's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Wapello's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.




A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A) and (D) are material weaknesses. Prior year reportable conditions have been resolved except for items (A), (B), (C), (D), (E) and (F).

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Wapello during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

August 5, 2004

**City of Wapello**

City of Wapello  
Schedule of Findings  
Year ended June 30, 2004

**Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

(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 receipts and disbursement transactions, and handling and recording cash.
- (3) Receipts – collecting, depositing, journalizing, posting and reconciling.
- (4) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (5) Disbursements – preparing, recording and reconciling.
- (6) Payroll – preparing and distributing.
- (7) Computer usage – performing all general accounting functions and controlling data input and output.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review their operating procedures to obtain the maximum internal control possible under the circumstances.

Response – The City will review its operating procedures.

Conclusion – Response accepted.

(B) Separately Maintained Records – The Keck Memorial Library maintains separate accounting records for its operations. The individual transaction activity is not included in the City's accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states in part that 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 accounting records and reported to the Council on a monthly basis.

City of Wapello

Schedule of Findings

Year ended June 30, 2004

Response – The Library accounts will be brought into the CMS software ledger accounts instead of being just on the balance sheet.

Conclusion – Response accepted.

- (C) Monthly Bank Reconciliations – The Clerk’s balances were not reconciled monthly to the bank account balances. An accurate list of outstanding checks was not always prepared each month.

Recommendation – To provide better control over financial transactions and overall accountability, the Clerk’s balances should be reconciled to all checking accounts, investments and petty cash. Any variances should be investigated and resolved in a timely manner. A listing of outstanding checks should be prepared each month.

Response – Monthly reconciliation reports will be completed.

Conclusion – Response accepted.

- (D) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies each month. The Council should review the reconciliation and monitor delinquencies each month.

Response – Monthly utility billing, collection and delinquency accounts will be reconciled and passed on to the Council for review.

Conclusion – Response accepted.

- (E) Information Systems – The following weaknesses in the city’s computer based systems were noted:

The City does not have written policies for:

- requiring password changes because software does not require the user to change log-ins/passwords periodically.
- immediately removing access rights for terminated employees.
- requiring the use of an anti-virus program on computers and obtaining updates to the anti-virus program.
- requiring timeout or logoff functions to be utilized when terminals are left unattended.
- requiring scan disk to be run when programs are installed or downloading files.

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

City of Wapello

Schedule of Findings

Year ended June 30, 2004

Response – The City will contact CMS to see what they have to offer for logoff functions. Anti virus software will be purchased. Scan disk procedure, password change requirements and removal of access rights will be added to computer policy.

Conclusion – Response accepted.

- (F) Wapello Volunteer Fire Department – Prenumbered receipts were not issued by the Wapello Volunteer Fire Department.

One important aspect of internal control is the segregation of duties among employee 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. One individual has control over one or more of the following areas:

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

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money.

The Wapello Volunteer Fire Department should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – Currently prenumbered receipt books have been purchased and will start using them. Also, the Wapello Fire Department will have a second person review the bank reconciliations and the handling of cash receipts.

Conclusion – Response accepted.

City of Wapello

Schedule of Findings

Year ended June 30, 2004

**Other Findings Related to Statutory Reporting:**

- (1) Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- (2) Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the health and social services and culture and recreation functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. Also, the public works, health and social services and debt service functions were exceeded prior to the budget being amended.

Recommendation – The budget should have been amended as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City will strive to amend the budget before disbursements are made.

Conclusion – Response accepted.

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

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Chantz Bieri	Christmas recognition	\$ 25
Liewann Bryant	Christmas recognition	25
Wayne Crump	Christmas recognition	25
Mike Delzell	Christmas recognition	25
Celia Crayfahl	Christmas recognition	25
Matt Gilhl	Christmas recognition	25
Kirk Kinsley	Christmas recognition	25

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

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

Response – The City will strive to accomplish this in the next fiscal year, by reviewing the practice and determining if the City will continue this practice.

Conclusion – Response accepted.

City of Wapello

Schedule of Findings

Year ended June 30, 2004

- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Liewann Bryant, Librarian, Spouse is owner of Bryant Construction	Repairs	\$1,158

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with Bryant Construction do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

- (6) 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 insure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although the minutes of Council proceedings were published, total disbursements from each fund and a summary of all receipts were not included as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish minutes as required.

Response – The City will print/publish total disbursements from each fund.

Conclusion – Response acknowledged. Also, the City should publish a summary of all receipts.

- (8) Deposits and Investments – Except as noted below, deposits and investments were in compliance with Chapters 12B and 12C of the Code of Iowa.

The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. Also, interest on investments earned on the Debt Service Fund has not been credited to that fund. Chapter 12C.9(2) of the Code of Iowa requires interest earned on bond proceeds and funds being accumulated for the payment of principal and interest be used to pay the principal and interest as it comes due or be credited to the project fund for which the indebtedness was issued.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City should comply with Chapter 12C.9 of the Code of Iowa and credit interest earned on investments from the Debt Service Fund to that fund.

City of Wapello

Schedule of Findings

Year ended June 30, 2004

Response – The City will develop an investment policy and credit interest earned to the Debt Service Fund.

Conclusion – Response accepted.

- (9) Financial Condition – The Capital Projects Fund had a deficit balance at June 30, 2004.

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

Response – The City Clerk will contact our software vendor to help close this account to the General Fund.

Conclusion – Response accepted.

- (10) Payment of General Obligation Notes – General obligation notes and interest were paid from the Enterprise, Water and Sewer Funds during the year ended June 30, 2004. Chapter 384.4 of the Code of Iowa states in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the debt service fund.”

Recommendation – The City should transfer funds from the Enterprise Funds to the Debt Service Fund for future funding contributions. Payments of the note principal and interest should be disbursed from the Debt Service Fund.

Response – The City will transfer funds from the Enterprise Funds to Debt Service for the payment of general obligation notes.

Conclusion – Response accepted.



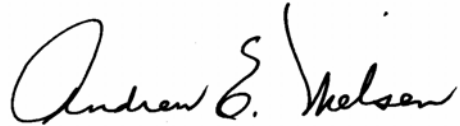
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City of Wapello

Staff

This audit was performed by:

K. David Voy, CPA, Manager  
Cory A. Warmuth, CPA, Staff Auditor  
Kip M. Druecker, Assistant Auditor

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State