



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ January 19, 2006 _____ Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$1,485,490 for the year ended June 30, 2005, a 6 percent increase from 2004. The receipts included \$380,831 in property tax, \$97,319 from tax increment financing, \$652,066 from charges for service, \$200,253 from operating grants, contributions and restricted interest and \$155,021 from other general receipts.

Disbursements for the year totaled \$1,348,251, a 3 percent decrease from the prior year, and included \$350,321 for public works, \$195,402 for public safety and \$194,587 for culture and recreation. Also, disbursements for business type activities totaled \$416,663.

A copy of the 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/reports.htm>.

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CITY OF WAPELLO

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

JUNE 30, 2005

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City of Wapello

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roger Noble	Mayor	Jan 2006
Jim Keldgord	Mayor Pro tem	Jan 2006
Eddie Fisher	Council Member	Resigned
Kermit L. Peterson (Appointed)	Council Member	Nov 2005
Jack Dotson	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, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Wapello's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

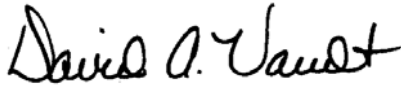
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Wapello as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

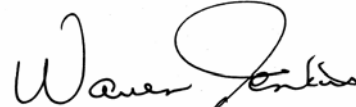
In accordance with Government Auditing Standards, we have also issued our report dated August 23, 2005 on our consideration of the City of Wapello's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 26 through 28 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 required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Wapello's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions 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 23, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 8.0%, or approximately \$85,000, from fiscal year 2004 to fiscal year 2005.
- Disbursements of the City's governmental activities decreased 8.5%, or approximately \$87,000, in fiscal year 2005 from fiscal year 2004.
- The City's total cash basis net assets increased \$137,239 from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately 7% and the assets of the business type activities increased by approximately 37%.

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, 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.

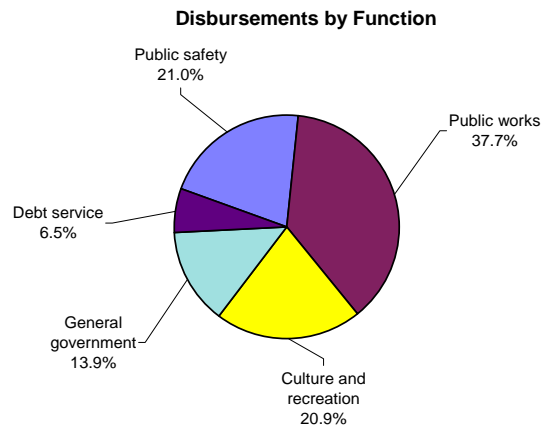
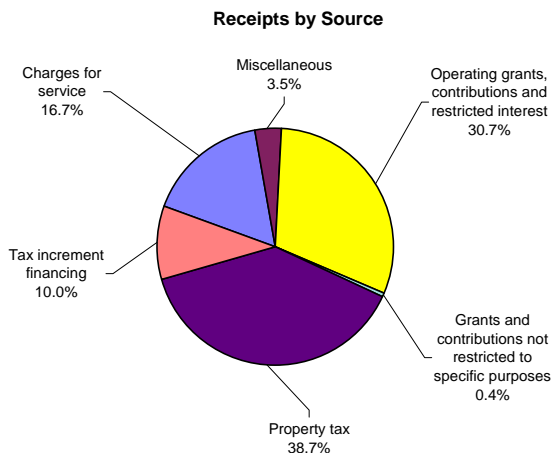
2) Proprietary funds account for the City's Enterprise Funds and are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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 \$761,000 to \$814,000. The analysis that follows focuses on the changes in cash balances of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service	\$ 164	148
Operating grants, contributions and restricted interest	302	364
General receipts:		
Property tax	381	388
Tax increment financing	97	60
Grants and contributions not restricted to specific purposes	4	9
Unrestricted interest on investments	3	2
Miscellaneous	34	99
Total receipts	985	1,070
Disbursements:		
Public safety	196	167
Public works	350	305
Health and social services	-	154
Culture and recreation	195	203
General government	130	128
Debt service	61	62
Total disbursements	932	1,019
Increase in cash basis net assets	53	51
Cash basis net assets beginning of year	761	710
Cash basis net assets end of year	\$ 814	761



The City's total receipts for governmental activities decreased by 8%, or approximately \$85,000. The total cost of all programs and services decreased by approximately \$87,000, or 8.5%, with no new programs added this year. The significant decrease 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 in fiscal 2004.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 183	166
Sewer	318	162
Total receipts	<u>501</u>	<u>328</u>
Disbursements:		
Water	181	152
Sewer	235	224
Total disbursements	<u>416</u>	<u>376</u>
Increase (decrease) in cash basis net assets	85	(48)
Cash basis net assets beginning of year	<u>228</u>	<u>276</u>
Cash basis net assets end of year	<u>\$ 313</u>	<u>228</u>

Total business type activities receipts for the fiscal year were \$501,000 compared to \$328,000 last year. The significant increase in receipts was due to an increase in sewer rates.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Wapello completed the year, its governmental funds reported a combined fund balance of \$814,228, an increase of \$52,921 above last year's total of \$761,307. 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 \$398,325 this fiscal year end compared to \$452,191 last fiscal year. Receipts and disbursements increased primarily due to a State Homeland Security grant for equipment.
- The Road Use Tax Fund cash balance was \$50,304 this fiscal year end compared to \$108,495 last fiscal year. The difference of \$58,191 was used to repair and maintain existing streets.
- The Tax Increment Financing Fund cash balance was \$142,618 this fiscal year end compared to \$60,240 last fiscal year. The City has not made a transfer from the Tax Increment Financing Fund to the Debt Service Fund of \$40,373 for debt payments made from the Debt Service Fund for FY2004 and FY2005. Also, the tax increment financing collections increased for FY2005.
- The Wapello Volunteer Fire Department Fund receipts and disbursements decreased due to donations received and a brush truck purchased in the prior year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance was \$168,857 at the end of the fiscal year, compared to an ending balance of \$166,833 at the end of last fiscal year. There were no significant changes in receipts and disbursements for the fiscal year.
- The Sewer Fund cash balance was \$143,667 at the end of the fiscal year, compared to an ending balance of \$61,373 at the end of last fiscal year. The significant increase in receipts was due to an increase in sewer rates. There was no significant change in disbursements.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended the budget one time. The amendment was approved on May 19, 2005 and resulted in an increase in operating receipts and disbursements, primarily related to a State Homeland Security grant for equipment.

DEBT ADMINISTRATION

At June 30, 2005, the City had \$513,462 in general obligation debt and other long-term debt outstanding. This represents a decrease of 13% percent from last year.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2005	2004
General obligation notes:		
Water and sewer improvements	\$ 154	161
Corporate purpose	155	165
Water and sewer construction	165	186
Lease purchase agreement:		
City hall building and water plant	39	76
Total	\$ 513	588

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 \$513,000 is significantly below its constitutional debt limit of \$3.1 million.

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 2006 budget, tax rates and fees charged for various City activities. Circumstances that could significantly affect its financial health in the future are as follows:

- 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 incurred for this project. The sewer rates were raised August 1, 2004. The increase in the monthly revenue generated by raising the sewer rates will be approximately \$10,000 to \$15,000.

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, 2005

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 195,402	15,192	114,399
Public works	350,321	116,609	176,602
Culture and recreation	194,587	29,356	11,514
General government	130,106	2,396	-
Debt service	61,172	-	-
Total governmental activities	931,588	163,553	302,515
Business type activities:			
Water	181,375	183,399	-
Sewer	235,288	317,582	-
Total business type activities	416,663	500,981	-
Total	\$ 1,348,251	664,534	302,515

General Receipts:

- 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

Cash basis net assets end of year

Cash Basis Net Assets

- Restricted:
 - Streets
 - Tax increment financing
 - Wapello Volunteer Fire Department
 - Debt service
 - Customer deposits
- Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(65,811)	-	(65,811)
(57,110)	-	(57,110)
(153,717)	-	(153,717)
(127,710)	-	(127,710)
(61,172)	-	(61,172)
(465,520)	-	(465,520)
-	2,024	2,024
-	82,294	82,294
-	84,318	84,318
(465,520)	84,318	(381,202)
342,856	-	342,856
97,319	-	97,319
37,975	-	37,975
3,578	-	3,578
2,829	-	2,829
33,884	-	33,884
518,441	-	518,441
52,921	84,318	137,239
761,307	228,206	989,513
\$ 814,228	312,524	1,126,752
\$ 50,304	-	50,304
142,618	-	142,618
213,323	-	213,323
9,658	-	9,658
-	32,894	32,894
398,325	279,630	677,955
\$ 814,228	312,524	1,126,752

City of Wapello

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

As of and for the year ended June 30, 2005

	Special Revenue			
	General	Road Use Tax	Tax Increment Financing	Wapello Volunteer Fire Department
Receipts:				
Property tax	\$ 331,006	-	-	-
Tax increment financing	-	-	97,319	-
Other city tax	11,849	-	-	-
Licenses and permits	20,114	-	-	-
Use of money and property	11,223	-	-	1,985
Intergovernmental	16,099	176,602	-	4,303
Charges for service	133,396	-	-	-
Miscellaneous	86,700	926	-	55,012
Total receipts	610,387	177,528	97,319	61,300
Disbursements:				
Operating:				
Public safety	161,212	-	-	34,190
Public works	114,602	235,719	-	-
Culture and recreation	194,587	-	-	-
General government	130,106	-	-	-
Debt service	-	-	-	-
Total disbursements	600,507	235,719	-	34,190
Excess (deficiency) of receipts over (under) disbursements	9,880	(58,191)	97,319	27,110
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	(63,746)	-	(14,941)	-
Total other financing sources (uses)	(63,746)	-	(14,941)	-
Net change in cash balances	(53,866)	(58,191)	82,378	27,110
Cash balances beginning of year	452,191	108,495	60,240	186,213
Cash balances end of year	\$ 398,325	50,304	142,618	213,323
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	-	-
Unreserved:				
General fund	398,325	-	-	-
Special revenue funds	-	50,304	142,618	213,323
Total cash basis fund balances	\$ 398,325	50,304	142,618	213,323

See notes to financial statements.

Nonmajor	Total
36,661	367,667
-	97,319
-	11,849
-	20,114
-	13,208
-	197,004
-	133,396
1,314	143,952
<u>37,975</u>	<u>984,509</u>
-	195,402
-	350,321
-	194,587
-	130,106
61,172	61,172
<u>61,172</u>	<u>931,588</u>
<u>(23,197)</u>	<u>52,921</u>
78,687	78,687
-	(78,687)
<u>78,687</u>	<u>-</u>
55,490	52,921
(45,832)	761,307
<u>9,658</u>	<u>814,228</u>
9,658	9,658
-	398,325
-	406,245
<u>9,658</u>	<u>814,228</u>

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, 2005

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 171,464	302,102	473,566
Special assessments	-	14,947	14,947
Miscellaneous	11,935	533	12,468
Total operating receipts	183,399	317,582	500,981
Operating disbursements:			
Business type activities	173,086	198,015	371,101
Excess of operating receipts over operating disbursements	10,313	119,567	129,880
Non-operating disbursements:			
Debt service	(8,289)	(37,273)	(45,562)
Excess of receipts over disbursements	2,024	82,294	84,318
Cash balances beginning of year	166,833	61,373	228,206
Cash balances end of year	\$ 168,857	143,667	312,524
Cash Basis Fund Balances			
Reserved for customer deposits	\$ 32,894	-	32,894
Unreserved	135,963	143,667	279,630
Total cash basis fund balances	\$ 168,857	143,667	312,524

See notes to financial statements.

City of Wapello

Notes to Financial Statements

June 30, 2005

(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 Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are incurred, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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, 2005, disbursements exceeded the amounts budgeted in the culture and recreation and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2005, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
U.S. Treasury Notes	\$ 5,000	4,928	10/31/06
U.S. Treasury Notes	25,000	24,750	11/30/06
Total	<u>\$ 30,000</u>	<u>29,678</u>	

The Wapello Volunteer Fire Department Fund's investments at June 30, 2005 consist of stock mutual funds with a fair value of \$40,768 and, accordingly, disclosure of concentration of credit risk, credit risk and interest rate risk are not applicable.

Interest rate risk – The City's investment policy does not limit the amount of an investment or the time to maturity for an investment.

(3) Notes Payable

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

Year Ending June 30,	Principal	Interest	Total
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	50,131	16,732	66,863
2011 - 2015	193,519	46,866	240,385
2016 - 2020	57,222	8,823	66,045
Total	\$ 474,434	164,407	638,841

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, 2005.

Year Ending June 30,	Minimum Lease Payments	Less Amount Representing Interest	Present Value of Net Minimum Lease Payments
2006	\$ 41,290	2,262	39,028

(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 3.70% of their annual covered salary and the City is required to contribute 5.75% 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, 2005, 2004 and 2003 were \$15,044, \$14,193 and \$13,980, 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, 2005, primarily relating to the General Fund, is \$10,700. This liability has been computed based on rates of pay in effect at June 30, 2005.

(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) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Capital Projects	General	\$ 63,746
Debt Service	Special Revenue: Tax Increment Financing	<u>14,941</u>
Total		<u>\$ 78,687</u>

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

(8) Construction Commitments

The City has entered into construction contracts totaling approximately \$510,496. As of June 30, 2005, no costs had been paid on the contracts. The City will pay for the construction contracts by issuing sewer revenue bonds.

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, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 367,667	-	-
Tax increment financing	97,319	-	-
Other city tax	11,849	-	-
Licenses and permits	20,114	-	-
Use of money and property	13,208	-	1,985
Intergovernmental	197,004	-	4,303
Charges for service	133,396	473,566	-
Special assessments	-	14,947	-
Miscellaneous	143,952	12,468	55,012
Total receipts	984,509	500,981	61,300
Disbursements:			
Public safety	195,402	-	34,190
Public works	350,321	-	-
Culture and recreation	194,587	-	-
General government	130,106	-	-
Debt service	61,172	-	-
Business type activities	-	416,663	-
Total disbursements	931,588	416,663	34,190
Excess (deficiency) of receipts over (under) disbursements	52,921	84,318	27,110
Other financing sources, net	-	-	-
Excess of receipts and other financing sources over disbursements and other financing uses	52,921	84,318	27,110
Balances beginning of year	761,307	228,206	186,213
Balances end of year	\$ 814,228	312,524	213,323

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
367,667	370,201	370,201	(2,534)
97,319	58,487	58,487	38,832
11,849	15,149	15,149	(3,300)
20,114	5,270	5,270	14,844
11,223	7,750	7,750	3,473
192,701	214,613	214,613	(21,912)
606,962	507,825	507,825	99,137
14,947	7,500	7,500	7,447
101,408	-	-	101,408
<u>1,424,190</u>	<u>1,186,795</u>	<u>1,186,795</u>	<u>237,395</u>
161,212	103,368	170,618	9,406
350,321	296,385	360,385	10,064
194,587	181,268	181,268	(13,319)
130,106	126,422	138,422	8,316
61,172	41,291	41,291	(19,881)
416,663	438,061	454,061	37,398
<u>1,314,061</u>	<u>1,186,795</u>	<u>1,346,045</u>	<u>31,984</u>
110,129	-	(159,250)	269,379
-	-	159,250	(159,250)
110,129	-	-	110,129
803,300	1,036,432	1,036,432	(233,132)
<u>913,429</u>	<u>1,036,432</u>	<u>1,036,432</u>	<u>(123,003)</u>

City of Wapello

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. 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 or fund type. 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, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$159,250. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the culture and recreation and debt service functions.

Other Supplementary Information

City of Wapello

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, 2005

	Debt Service	Capital Projects	Total
Receipts:			
Property tax	\$ 36,661	-	36,661
Miscellaneous	1,314	-	1,314
Total receipts	<u>37,975</u>	-	<u>37,975</u>
Disbursements:			
Debt service	<u>61,172</u>	-	<u>61,172</u>
Deficiency of receipts under disbursements	(23,197)	-	(23,197)
Other financing sources:			
Operating transfers in	<u>14,941</u>	63,746	<u>78,687</u>
Net change in cash balances	(8,256)	63,746	55,490
Cash balances beginning of year	<u>17,914</u>	(63,746)	<u>(45,832)</u>
Cash balances end of year	<u>\$ 9,658</u>	-	<u>9,658</u>
Cash Basis Fund Balances			
Reserved for debt service	<u>\$ 9,658</u>	-	<u>9,658</u>

See accompanying independent auditor's report.

City of Wapello
Schedule of Indebtedness
Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates
General obligation notes:		
Water and sewer improvements	Sep 17, 1998	6.00%
Corporate purpose	Jun 1, 2000	6.00
Water and sewer construction	May 9, 2002	5.00
Total		
Lease purchase agreement:		
City hall building and water plant	Jun 25, 1993	5.80%

See accompanying independent auditor's report.

Amount Originally Issued	Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 190,000	160,871	6,923	153,948	9,656	-
205,000	165,000	10,000	155,000	9,882	-
227,665	185,641	20,155	165,486	8,828	-
	<u>\$ 511,512</u>	<u>37,078</u>	<u>474,434</u>	<u>28,366</u>	<u>-</u>
\$ 350,000	<u>75,915</u>	<u>36,887</u>	<u>39,028</u>	<u>4,403</u>	<u>-</u>

City of Wapello

Note Maturities

June 30, 2005

Year Ending June 30,	General Obligation Notes					
	Water and Sewer Improvements		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
2006	6.00%	\$ 7,339	6.00%	\$ 10,000	5.00%	\$ 21,187
2007	6.00	7,779	6.00	10,000	5.00	22,270
2008	6.00	8,245	6.00	15,000	5.00	23,395
2009	6.00	8,740	6.00	15,000	5.00	24,607
2010	6.00	9,265	6.00	15,000	5.00	25,866
2011	6.00	9,820	6.00	15,000	5.00	27,189
2012	6.00	10,410	6.00	15,000	5.00	20,972
2013	6.00	11,034	6.00	20,000		-
2014	6.00	11,696	6.00	20,000		-
2015	6.00	12,398	6.00	20,000		-
2016	6.00	13,142		-		-
2017	6.00	13,931		-		-
2018	6.00	14,766		-		-
2019	6.00	15,383		-		-
Total		<u>\$ 153,948</u>		<u>\$ 155,000</u>		<u>\$ 165,486</u>

See accompanying independent auditor's report.

Total

38,526

40,049

46,640

48,347

50,131

52,009

46,382

31,034

31,696

32,398

13,142

13,931

14,766

15,383

474,434

Schedule 4

City of Wapello

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

For the Last Three Years

	2005	2004	2003
Receipts:			
Property tax	\$ 367,667	374,623	375,940
Tax increment financing	97,319	60,240	43,476
Other city tax	11,849	13,689	16,938
Licenses and permits	20,114	19,606	5,224
Use of money and property	13,208	11,283	16,535
Intergovernmental	197,004	365,128	247,483
Charges for service	133,396	127,059	124,214
Miscellaneous	143,952	98,564	85,464
Total	\$ 984,509	1,070,192	915,274
Disbursements:			
Operating:			
Public safety	\$ 195,402	166,751	159,505
Public works	350,321	305,250	273,179
Health and social services	-	154,000	-
Culture and recreation	194,587	203,080	195,381
General government	130,106	127,951	109,695
Debt service	61,172	61,781	62,372
Total	\$ 931,588	1,018,813	800,132

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited 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, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 23, 2005. 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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 opinions on the financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud 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 item A is a material weakness.

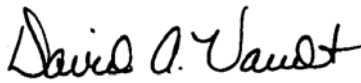
Compliance and Other Matters

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 and other matters, 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 that are described in the accompanying Schedule of Findings.

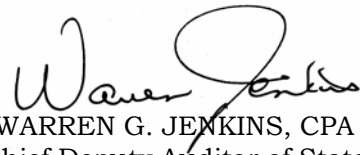
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions 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.

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 23, 2005

City of Wapello

City of Wapello
Schedule of Findings
Year ended June 30, 2005

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 its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – The City will review its operating procedures for any opportunity to correct this.

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, "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, 2005

Response – The Library savings accounts and CD accounts will be brought into the computer system.

Conclusion – Response accepted.

(C) 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.

Response – The City will develop written policies for all the above items in the next year. The City is currently in the process of getting antivirus software installed on the network.

Conclusion – Response accepted.

(D) Financial Statement Report – The detailed listing of outstanding checks does not match the totals for outstanding checks by fund on the financial statement report. This matter was resolved for audit purposes.

Recommendation – The detailed listing of outstanding checks should match the totals for outstanding checks by fund on the financial statement report. This would allow individual fund balances to be correctly reported.

Response – The City will work with CMS to get this problem resolved.

Conclusion – Response accepted.

City of Wapello

Schedule of Findings

Year ended June 30, 2005

(E) Volunteer Wapello 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. For the Volunteer Fire Department, 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 Volunteer Fire Department should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – Fire Department has gotten receipts and will issue those on donations.

Conclusion – Response acknowledged. Also, the Volunteer Fire Department should review its operating procedures to obtain the maximum internal control possible under the circumstances.

City of Wapello

Schedule of Findings

Year ended June 30, 2005

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, 2005.
- (2) Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the culture and recreation and debt service 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 safety, public works and debt service functions were exceeded prior to the budget being amended.

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 strive to amend the budget before the budget is exceeded.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's Opinion dated April 25, 1979.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (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.
- (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.

City of Wapello

Schedule of Findings

Year ended June 30, 2005

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.

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

Conclusion – Response accepted.

- (9) 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, 2005. 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 the Debt Service Fund. Payments for general obligation note principal and interest will be paid from the Debt Service Fund.

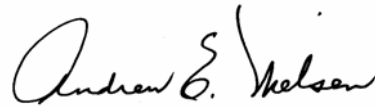
Conclusion – Response accepted.

City of Wapello

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Kip M. Druecker, Staff Auditor
John G. Vanis, CGFM, Senior Auditor
Carmon K. Kutcher, 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