



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

December 8, 2006

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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 \$2,071,683 for the year ended June 30, 2006, a 28 percent increase over 2005. The receipts included \$631,835 from charges for service, \$219,646 from operating grants, contributions and restricted interest, \$310,924 from capital grants, contributions and restricted interest, \$383,917 in property and other city tax, \$103,795 from tax increment financing, \$333,519 from bond proceeds, \$2,899 from unrestricted interest on investments and \$85,148 from other general receipts.

Disbursements for the year totaled \$2,155,418, a 60 percent increase over the prior year, and included \$330,627 for public safety, \$301,510 for public works and \$201,861 for debt service. Also, disbursements for business type activities totaled \$993,384.

The significant increase in receipts is due primarily to receiving \$333,519 from bond proceeds and \$121,600 from a firefighter's grant. The significant increase in disbursements is due primarily to sewer improvements in 2006 and purchase of fire equipment.

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 AND QUESTIONED COSTS

JUNE 30, 2006

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City of Wapello

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
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
(After January 2006)		
Roger Noble	Mayor	Jan 2008
Jim Brown	Mayor Pro tem	Jan 2008
Rich Lugo	Council Member	Resigned
Josh R. Drayfahl (Appointed)	Council Member	Nov 2007
Andy Truitt	Council Member	Jan 2008
Randy Tillmann	Council Member	Jan 2008
Todd Shutt	Council Member	Jan 2008
Kermit L. Peterson	Council Member	Jan 2010
Shawn Maine	Council Member	Jan 2010
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, 2006, 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, 2006, 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 22, 2006 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 have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Wapello's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, 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 22, 2006

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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 9.9%, or approximately \$98,000, from fiscal year 2005 to fiscal year 2006.
- Disbursements and transfers of the City's governmental activities increased 28.3%, or approximately \$264,000, from fiscal year 2005 to fiscal year 2006.
- The City's total cash basis net assets decreased \$83,735, or .7% from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately 14% and the assets of the business type activities increased by approximately 9%.

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 City's outstanding debt. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, 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 and Wapello Volunteer Fire Department and 3) the Debt Service 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.

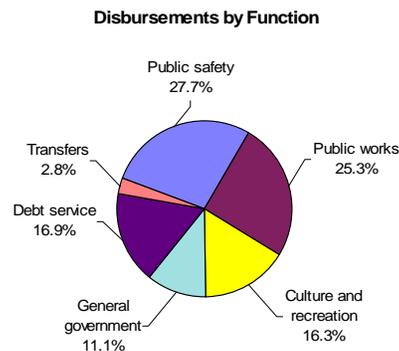
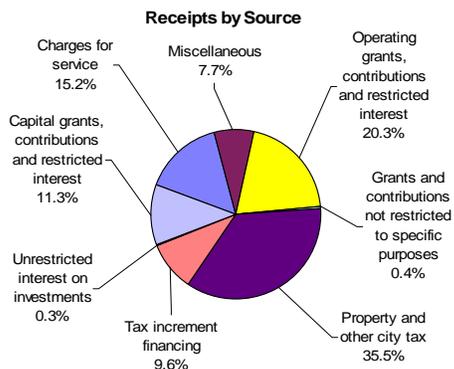
2) Proprietary funds account for the City's Enterprise Funds and are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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 decreased from \$814,000 to \$701,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service	\$ 165	164
Operating grants, contributions and restricted interest	220	302
Capital grants, contributions and restricted interest	122	-
General receipts:		
Property and other city tax	384	381
Tax increment financing	104	97
Grants and contributions not restricted to specific purposes	2	4
Unrestricted interest on investments	3	3
Miscellaneous	83	34
Total receipts	1,083	985
Disbursements and transfers:		
Public safety	331	196
Public works	302	350
Culture and recreation	195	195
General government	133	130
Debt service	202	61
Transfers	33	-
Total disbursements and transfers	1,196	932
Increase (decrease) in cash basis net assets	(113)	53
Cash basis net assets beginning of year	814	761
Cash basis net assets end of year	\$ 701	814



The City's total receipts for governmental activities increased by 9.9%, or approximately \$98,000. The total cost of all programs and services increased by approximately \$264,000, or 28.3%, with no new programs added this year. The significant increase in receipts and disbursements was primarily the result of the City receiving a \$121,600 federal grant for the Wapello Volunteer Fire Department to be disbursed for the purchase of equipment. Also, the City disbursed funds to pay the general obligation corporate purpose notes of \$155,000.

Changes in Cash Basis Net Assets of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service:		
Water	\$ 181	183
Sewer	296	318
Capital grants, contributions and restricted interest	179	-
General receipts:		
Bond proceeds	333	-
Transfers	33	-
Total receipts and transfers	1,022	501
Disbursements:		
Water	244	181
Sewer	749	235
Total disbursements	993	416
Increase in cash basis net assets	29	85
Cash basis net assets beginning of year	313	228
Cash basis net assets end of year	\$ 342	313

Total business type activities receipts and transfers for the fiscal year were approximately \$1,022,000 compared to \$501,000 last year. The significant increase in receipts was due to a CDBG grant received and sewer revenue bonds issued in fiscal 2006.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Wapello completed the year, its governmental funds reported a combined fund balance of \$700,859, a decrease of \$113,369 from last year's total of \$814,228. 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 \$370,846 this fiscal year end compared to \$398,325 last fiscal year. Receipts and disbursements increased primarily due to a federal grant for fire equipment.
- The Road Use Tax Fund cash balance was \$44,459 at fiscal year end compared to \$50,304 last fiscal year. The decrease of \$5,845 was insignificant and partially due to street maintenance.
- The Wapello Volunteer Fire Department Fund cash balance increased due to donations received.
- The Debt Service Fund receipts, disbursements and transfers in increased due to the retirement of the general obligation corporate purpose notes dated June 1, 2000 and lease purchase agreement which was repaid with tax increment financing.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance was \$138,899 at fiscal year end, compared to an ending balance of \$168,857 last fiscal year. The significant increase in disbursements was due primarily to water tower improvements totaling \$32,000 and an increase in salaries and repair and maintenance totaling \$28,000.
- The Sewer Fund cash balance was \$203,259 at fiscal year end, compared to an ending balance of \$143,667 last fiscal year. The significant increase in receipts and disbursements was due to receiving a CDBG grant and issuing sewer revenue bonds for a sewer project in fiscal year 2006.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended the budget one time. The amendment was approved on June 29, 2006 and resulted in an increase in operating receipts and disbursements, primarily related to a federal grant for equipment. The City had sufficient cash balances to absorb the additional costs.

The City's receipts were \$427,289 less than budgeted. This was primarily due to the City inadvertently budgeting the sewer revolving loan proceeds and community development block grant program in charges for service.

With the amendment, total disbursements were \$71,945 less than the amended budget. Also, the actual disbursements for the culture and recreation and business type activities functions were \$17,374 and \$195,891, respectively, less than the amended budget. This was primarily due to budgeting all of the parks fundraiser resources even though the money would not be spent in fiscal year 2006 and to budgeting all of the north end sewer project estimated cost in fiscal year 2006 even though the project will be completed in fiscal year 2007.

The City also exceeded the amounts budgeted in the public safety, public works, general government and debt service functions for the year ended June 30, 2006. This was due to unexpected increases in operational expenditures such as fuel and health insurance and to budgeting the water and sewer share of general obligation debt from the business type activities even though the actual disbursements were properly recorded in the Debt Service Fund.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$656,078 in general obligation debt and other long-term debt outstanding. This represents an increase of 20.6% percent over last year.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2006	2005
General obligation notes:		
Water and sewer improvements	\$ 147	154
Corporate purpose	-	155
Water and sewer construction	144	165
	<u>291</u>	<u>474</u>
Sewer revenue bonds:		
Sewer construction	365	31
Lease purchase agreement:		
City hall building and water plant	-	39
Total	<u>\$ 656</u>	<u>544</u>

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 \$291,111 is significantly below its constitutional debt limit of \$3.2 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Wapello's elected and appointed officials and citizens considered many factors when setting the fiscal year 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 will need to purchase a new/used work truck. The sewer lagoons will need to be upgraded. The City is waiting for specifications from the State before any definite plans can be established.
- The governmental funds activities have some changes to next year's budget. The Briggs Civic Center south wall has been replaced due to termite damage. The termite damage has extended into the east and west walls. Two more businesses (Stitches & Cream and Dollar General Store) will start to receive property tax rebates this next fiscal year. The property tax rebates are for the City's portion of the taxes on the new buildings. A local citizen started a fund raising project to purchase playground equipment for the City's two parks. The funds raised are being put into a General Fund savings account within the General Fund until the goal for each new set of new playground equipment has been met.

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, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 330,627	18,593	16,246	121,600
Public works	301,510	119,099	177,652	-
Culture and recreation	194,706	24,912	25,295	-
General government	133,330	2,171	-	-
Debt service	201,861	-	453	-
Total governmental activities	1,162,034	164,775	219,646	121,600
Business type activities:				
Water	244,268	181,195	-	-
Sewer	749,116	285,865	-	189,324
Total business type activities	993,384	467,060	-	189,324
Total	\$ 2,155,418	631,835	219,646	310,924

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
 Bond proceeds
 Miscellaneous
 Transfers

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
 Sewer sinking

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
(174,188)	-	(174,188)
(4,759)	-	(4,759)
(144,499)	-	(144,499)
(131,159)	-	(131,159)
(201,408)	-	(201,408)
(656,013)	-	(656,013)
-	(63,073)	(63,073)
-	(273,927)	(273,927)
-	(337,000)	(337,000)
(656,013)	(337,000)	(993,013)
345,819	-	345,819
103,795	-	103,795
38,098	-	38,098
1,983	-	1,983
2,707	192	2,899
-	333,519	333,519
83,165	-	83,165
(32,923)	32,923	-
542,644	366,634	909,278
(113,369)	29,634	(83,735)
814,228	312,524	1,126,752
\$ 700,859	342,158	1,043,017
\$ 44,459	-	44,459
27,487	-	27,487
225,716	-	225,716
32,351	-	32,351
-	35,918	35,918
-	31,020	31,020
370,846	275,220	646,066
\$ 700,859	342,158	1,043,017

City of Wapello

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

As of and for the year ended June 30, 2006

	Special Revenue		
	General	Road Use Tax	Wapello Volunteer Fire Department
Receipts:			
Property tax	\$ 333,181	-	-
Tax increment financing	-	-	-
Other city tax	12,638	-	-
Licenses and permits	19,373	-	-
Use of money and property	6,822	-	2,739
Intergovernmental	146,664	177,652	-
Charges for service	134,159	-	-
Miscellaneous	59,312	1,113	45,589
Total receipts	712,149	178,765	48,328
Disbursements:			
Operating:			
Public safety	294,692	-	35,935
Public works	116,900	184,610	-
Culture and recreation	194,706	-	-
General government	133,330	-	-
Debt service	-	-	-
Total disbursements	739,628	184,610	35,935
Excess (deficiency) of receipts over (under) disbursements	(27,479)	(5,845)	12,393
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in cash balances	(27,479)	(5,845)	12,393
Cash balances beginning of year	398,325	50,304	213,323
Cash balances end of year	\$ 370,846	44,459	225,716
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	370,846	-	-
Special revenue funds	-	44,459	225,716
Total cash basis fund balances	\$ 370,846	44,459	225,716

See notes to financial statements.

Debt Service	Nonmajor		Total
	Increment Financing	Tax	
38,098	-	-	371,279
-	103,795	-	103,795
-	-	-	12,638
-	-	-	19,373
453	-	-	10,014
-	-	-	324,316
-	-	-	134,159
-	-	-	106,014
<u>38,551</u>	<u>103,795</u>		<u>1,081,588</u>
-	-	-	330,627
-	-	-	301,510
-	-	-	194,706
-	-	-	133,330
201,861	-	-	201,861
<u>201,861</u>			<u>1,162,034</u>
<u>(163,310)</u>	<u>103,795</u>		<u>(80,446)</u>
186,003	-	-	186,003
-	(218,926)	-	(218,926)
<u>186,003</u>	<u>(218,926)</u>		<u>(32,923)</u>
22,693	(115,131)	-	(113,369)
9,658	142,618	-	814,228
<u>32,351</u>	<u>27,487</u>		<u>700,859</u>
32,351	-	-	32,351
-	-	-	370,846
-	27,487	-	297,662
<u>32,351</u>	<u>27,487</u>		<u>700,859</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, 2006

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 171,161	285,514	456,675
Miscellaneous	10,034	351	10,385
Total operating receipts	181,195	285,865	467,060
Operating disbursements:			
Business type activities	235,979	171,937	407,916
Excess (deficiency) of operating receipts over (under) operating disbursements	(54,784)	113,928	59,144
Non-operating receipts (disbursements):			
Intergovernmental	-	179,593	179,593
Unrestricted interest on investments	192	-	192
Capital project	-	(533,907)	(533,907)
Debt service	(8,289)	(43,272)	(51,561)
Total non-operating receipts (disbursements)	(8,097)	(397,586)	(405,683)
Deficiency of receipts under disbursements	(62,881)	(283,658)	(346,539)
Other financing sources:			
Capital contributions - special assessments	-	9,731	9,731
Transfers in	32,923	-	32,923
Bond proceeds	-	333,519	333,519
Total other financing sources	32,923	343,250	376,173
Net change in cash balances	(29,958)	59,592	29,634
Cash balances beginning of year	168,857	143,667	312,524
Cash balances end of year	\$ 138,899	203,259	342,158
Cash Basis Fund Balances			
Reserved for:			
Customer deposits	\$ 35,918	-	35,918
Sewer sinking	-	31,020	31,020
Unreserved	102,981	172,239	275,220
Total cash basis fund balances	\$ 138,899	203,259	342,158

See notes to financial statements.

City of Wapello

Notes to Financial Statements

June 30, 2006

(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 service.

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

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, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, general government and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 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, 2006, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
U.S. Treasury Notes	\$ 5,000	4,958	10/31/06
U.S. Treasury Notes	25,000	24,758	11/30/06
Total	\$ 30,000	29,716	

The Wapello Volunteer Fire Department Fund's investments at June 30, 2006 consist of stock mutual funds with a fair value of \$44,027 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) Bonds and Notes Payable

General Obligation Notes

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

Year Ending June 30,	Principal	Interest	Total
2007	\$ 30,147	15,213	45,360
2008	31,640	13,921	45,561
2009	33,347	12,215	45,562
2010	35,131	10,432	45,563
2011	37,009	8,552	45,561
2012 - 2016	79,701	24,650	104,351
2017 - 2021	44,136	5,387	49,523
Total	\$ 291,111	90,370	381,481

Sewer Revenue Bond

On June 2, 2005, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of a \$503,000 sewer revenue bond with interest at 3.0% per annum. The bond was issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of constructing improvements and extensions to the City's sewer system. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2006, the City had drawn \$364,967, including a \$5,030 initiation fee, of the \$503,000 authorized. Wells Fargo Bank Iowa, N.A. has the remaining balance of \$138,033 held in trust, which the City will request as the project progresses. A formal repayment schedule has not yet been adopted.

The resolution providing for the issuance of the sewer revenue bond includes the following provisions.

- a. The bond will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- b. Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account for the purpose of making principal and interest payments when due.
- c. User rates shall be established at a level which produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year

The beginning balance of the sewer revenue bond indebtedness was restated to include the first payment of \$31,448, including the \$5,030 initiation fee, made June 28, 2005.

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. During the year ended June 30, 2006, the City made the final payment, totaling \$41,290, under the terms of the agreement.

(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, 2006, 2005 and 2004 were \$16,598 \$15,044 and \$14,193, 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, 2006, primarily relating to the General Fund, is \$17,500. This liability has been computed based on rates of pay in effect at June 30, 2006.

(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, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue: Tax Increment Financing	\$ 186,003
Water	Special Revenue: Tax Increment Financing	32,923
Total		<u>\$ 218,926</u>

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

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, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 371,279	-	-
Tax increment financing	103,795	-	-
Other city tax	12,638	-	-
Licenses and permits	19,373	-	-
Use of money and property	10,014	-	2,739
Intergovernmental	324,316	179,593	-
Charges for service	134,159	456,675	-
Special assessments	-	9,731	-
Miscellaneous	106,014	10,577	45,589
Total receipts	1,081,588	656,576	48,328
Disbursements:			
Public safety	330,627	-	35,935
Public works	301,510	-	-
Culture and recreation	194,706	-	-
General government	133,330	-	-
Debt service	201,861	-	-
Business type activities	-	993,384	-
Total disbursements	1,162,034	993,384	35,935
Excess (deficiency) of receipts over (under) disbursements	(80,446)	(336,808)	12,393
Other financing sources, net	(32,923)	366,442	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(113,369)	29,634	12,393
Balances beginning of year	814,228	312,524	213,323
Balances end of year	\$ 700,859	342,158	225,716

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
371,279	372,655	372,655	(1,376)
103,795	98,742	98,742	5,053
12,638	11,949	11,949	689
19,373	3,920	3,950	15,423
7,275	6,150	6,150	1,125
503,909	191,252	191,252	312,657
590,834	1,424,927	1,424,927	(834,093)
9,731	7,500	7,500	2,231
71,002	-	-	71,002
1,689,836	2,117,095	2,117,125	(427,289)
294,692	151,760	293,460	(1,232)
301,510	300,632	300,632	(878)
194,706	198,880	212,080	17,374
133,330	132,391	132,391	(939)
201,861	63,590	63,590	(138,271)
993,384	1,189,275	1,189,275	195,891
2,119,483	2,036,528	2,191,428	71,945
(429,647)	80,567	(74,303)	(355,344)
333,519	-	154,900	178,619
(96,128)	80,567	80,597	(176,725)
803,300	1,148,745	1,148,745	(235,316)
817,301	1,229,312	1,229,342	(412,041)

City of Wapello

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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. 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 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 \$154,900. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, general government and debt service functions.

Other Supplementary Information

City of Wapello
Schedule of Indebtedness
Year ended June 30, 2006

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			
Revenue bonds:			
Sewer	Jun 2, 2005	3.00%	\$ 503,000
Lease purchase agreement:			
City hall building and water plant	Jun 25, 1993	5.80%	\$ 350,000

See accompanying independent auditor's report.

Balance Beginning of Year as restated	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
153,948	-	7,283	146,665	9,296
155,000	-	155,000	-	5,571
165,486	-	21,040	144,446	7,942
<u>\$ 474,434</u>	<u>-</u>	<u>183,323</u>	<u>291,111</u>	<u>22,809</u>
31,448	333,519	-	364,967	6,000
39,028	-	39,028	-	2,262

Schedule 2

City of Wapello

Note Maturities

June 30, 2006

		General Obligation Notes					
		Water and Sewer Improvements			Water and Sewer Construction		
Year		Issued Sep 17, 1998			Issued May 9, 2002		
Ending	Interest			Interest			Total
June 30,	Rates	Amount		Rates	Amount		
2007	6.00%	\$ 7,779		5.00%	\$ 22,368		30,147
2008	6.00	8,245		5.00	23,395		31,640
2009	6.00	8,740		5.00	24,607		33,347
2010	6.00	9,265		5.00	25,866		35,131
2011	6.00	9,820		5.00	27,189		37,009
2012	6.00	10,410		5.00	21,021		31,431
2013	6.00	11,034			-		11,034
2014	6.00	11,696			-		11,696
2015	6.00	12,398			-		12,398
2016	6.00	13,142			-		13,142
2017	6.00	13,931			-		13,931
2018	6.00	14,766			-		14,766
2019	6.00	15,439			-		15,439
Total		\$ 146,665			\$ 144,446		291,111

See accompanying independent auditor's report.

City of Wapello

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

For the Last Four Years

	2006	2005	2004	2003
Receipts:				
Property tax	\$ 371,279	367,667	374,623	375,940
Tax increment financing	103,795	97,319	60,240	43,476
Other city tax	12,638	11,849	13,689	16,938
Licenses and permits	19,373	20,114	19,606	5,224
Use of money and property	10,014	13,208	11,283	16,535
Intergovernmental	324,316	197,004	365,128	247,483
Charges for service	134,159	133,396	127,059	124,214
Miscellaneous	106,014	143,952	98,564	85,464
Total	\$ 1,081,588	984,509	1,070,192	915,274
Disbursements:				
Operating:				
Public safety	\$ 330,627	195,402	166,751	159,505
Public works	301,510	350,321	305,250	273,179
Health and social services	-	-	154,000	-
Culture and recreation	194,706	194,587	203,080	195,381
General government	133,330	130,106	127,951	109,695
Debt service	201,861	61,172	61,781	62,372
Total	\$ 1,162,034	931,588	1,018,813	800,132

See accompanying independent auditor's report.

Schedule 4

City of Wapello

Schedule of Expenditures of Federal Awards

For year ended June 30, 2006

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Disbursements
Direct:			
U.S. Department of Homeland Security:			
Office of Domestic Preparedness:			
Assistance to Firefighters Grant	97.044	EMW-2005-FG-12923	\$ 121,600
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	04-WS-099-02	177,287
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS19228101	274,267
Total Indirect			451,554
Total			\$ 573,154

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Wapello and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Wapello, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated August 22, 2006. 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 and Questioned Costs.

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 II-A-06 is a material weakness.

Compliance and Other Matters

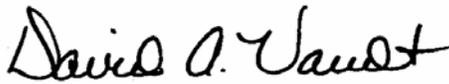
As part of obtaining reasonable assurance about whether the City of Wapello's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, non-compliance with which could have 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 Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 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, including federal awarding agencies and pass-through entities. 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 22, 2006

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

City of Wapello



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

We have audited the compliance of the City of Wapello, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2006. The City of Wapello's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the City of Wapello's management. Our responsibility is to express an opinion on the City of Wapello's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Wapello's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Wapello's compliance with those requirements.

In our opinion, the City of Wapello complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Wapello is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Wapello's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect City of Wapello's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

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 non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program 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 compliance 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 III-A-06 is a material weakness.

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, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 22, 2006

City of Wapello

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which 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.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major programs was disclosed by the audit of the financial statements, which was considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 14.218 – Community Development Block Grants/State's Program.
 - CFDA Number 66.458 – Capitalization Grants for Clean Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Wapello did not qualify as a low-risk auditee.

City of Wapello

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

II-A-06 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 continue to review operating procedures for any opportunity to remedy this situation.

Conclusion – Response accepted.

II-B-06 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.

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

City of Wapello

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Response – All Keck Memorial Library deposit accounts will be properly recorded and accounted for in the City’s accounting system including the proper receipting and recording of interest.

Conclusion – Response accepted.

II-C-06 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 a written policy for the above.

Conclusion – Response accepted.

II-D-06 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 the computer software company to get this problem resolved.

Conclusion – Response accepted.

II-E-06 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 Wapello Volunteer Fire Department, one individual has control over one or more of the following areas:

City of Wapello

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

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

Response – The Wapello Volunteer Fire Department will review its operating procedures to resolve this matter.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Wapello

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

CFDA Number 14.218: Community Development Block Grants/State's Program
Pass-through Agency Number: 04-WS-099-02
Federal Award Year: 2006
Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development

CFDA Number 66.458: Capitalization Grants for Clean Water State Revolving Fund
Pass-through Agency Number: CS-192-281-01
Federal Award Year: 2006
Environmental Protection Agency
Passed through the Iowa Department of Natural Resources

III-A-06 Segregation of Duties over Federal Receipts and Disbursements – The City did not properly segregate collection, deposit and record-keeping for receipts or preparing recording and reconciling for disbursements, including those related to federal programs. See item II-A-06.

City of Wapello

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public safety, public works, general government and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.” Also, the public safety 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 work harder to amend the budget before the budget is exceeded.

Conclusion – Response accepted.

IV-B-06 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s Opinion dated April 25, 1979 were noted.

IV-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-06 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-06 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.

IV-F-06 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-06 Deposits and Investments – Deposits and investments were in compliance with Chapters 12B and 12C of the Code of Iowa and the City’s investment policy.

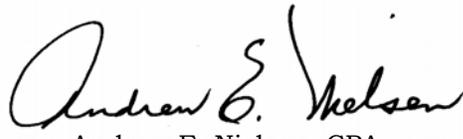
IV-H-06 Revenue Bonds – No instances of noncompliance with the sewer revenue bond resolution were noted.

City of Wapello

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager
Kip M. Druecker, Senior Auditor
Michael J. Hackett, Assistant Auditor
Carrie L. Livingston, CPA, 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