



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

February 20, 2008

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 \$1,595,805 for the year ended June 30, 2007, a 21 percent decrease from 2006. The receipts included \$399,536 in property tax, \$46,601 from tax increment financing, \$633,009 from charges for service, \$316,693 from operating grants, contributions and restricted interest, \$54,385 from capital grants and contributions, \$4,766 from unrestricted interest on investments, \$131,033 from bond and loan proceeds and \$9,782 from other general receipts. The decrease in receipts is primarily due to a decrease in bond proceeds from the prior year.

Disbursements for the year totaled \$1,575,780, a 26 percent decrease from the prior year, and included \$313,630 for culture and recreation, \$276,829 for public works and \$163,328 for public safety. Disbursements for business type activities totaled \$687,599.

The significant decrease in disbursements is due primarily to less capital improvement activity in the current year.

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, 2007

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets–Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	19
Notes to Financial Statements		20-25
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis)–All Governmental Funds and Proprietary Funds		28-29
Notes to Required Supplementary Information–Budgetary Reporting		30
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Indebtedness	1	32-33
Bond Maturities	2	34
Schedule of Receipts by Source and Disbursements by Function– All Governmental Funds	3	35
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 <u>Government Auditing Standards</u>		39-40
Schedule of Findings		41-48
Staff		49

City of Wapello

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roger Noble	Mayor	Jan 2008
Shawn Maine	Mayor Pro tem	Jan 2010
Jim Brown	Council Member	Jan 2008
Josh R. Drayfahl	Council Member	Jan 2008
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
Celia Drayfahl	City Clerk	Indefinite
Karen Gittings	Deputy 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, the discretely presented component unit and the remaining fund information of the City of Wapello, Iowa, as of and for the year ended June 30, 2007, 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.

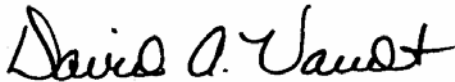
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

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, the discretely presented component unit and the remaining fund information of the City of Wapello as of June 30, 2007, 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 November 30, 2007 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 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied 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 four years ended June 30, 2006 (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 3 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

November 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Wapello provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 7.7%, or approximately \$80,000, from fiscal 2006 to fiscal 2007. Property tax increased approximately \$16,000 and tax increment financing decreased approximately \$57,000.
- Disbursements of the City's governmental activities decreased 21%, or approximately \$238,000, in fiscal 2007 from fiscal 2006. Public safety disbursements decreased approximately \$132,000 while debt service disbursements decreased approximately \$185,000.
- The City's total cash basis net assets increased 2.5%, or approximately \$20,000, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased \$64,000 and the assets of the business type activities decreased by \$44,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the City's debt.

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, culture and recreation, general government and debt service. Property tax and state grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 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. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

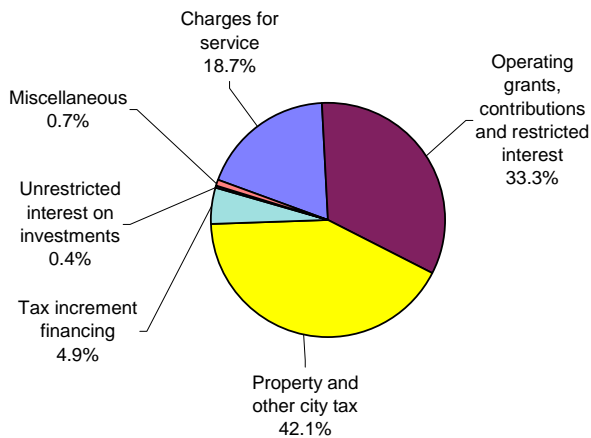
As described in Note 9 on page 25, beginning cash basis net assets of the governmental activities decreased to reclassify the Wapello Fire and Rescue, Inc. component unit from a blended presentation to a discrete presentation. To enhance comparability, all amounts presented for fiscal 2006 in this discussion and analysis were restated, where applicable, to reflect these changes as if the changes had been made in the prior year.

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased \$64,070 from a year ago, from \$475,143 to \$539,213. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

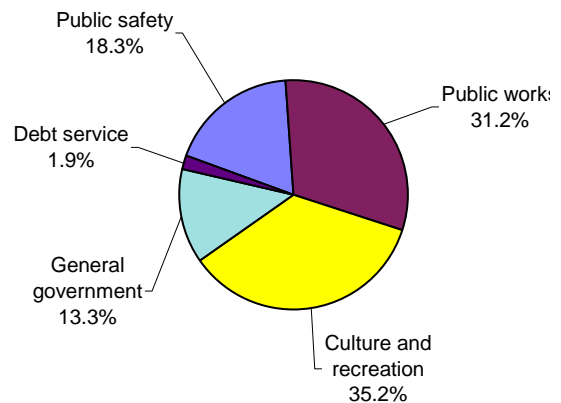
Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service	\$ 178	165
Operating grants, contributions and restricted interest	317	217
Capital grants, contributions and restricted interest	-	122
General receipts:		
Property and other city tax	400	384
Tax increment financing	47	104
Grants and contributions not restricted to specific purposes	-	2
Unrestricted interest on investments	4	3
Miscellaneous	7	36
Total receipts	953	1,033
Disbursements:		
Public safety	163	295
Public works	277	302
Culture and recreation	314	195
General government	118	133
Debt service	17	202
Total disbursements	889	1,127
Change in cash basis net assets before transfers	64	(94)
Transfers, net	-	(33)
Change in cash basis net assets	64	(127)
Cash basis net assets beginning of year, as restated	475	602
Cash basis net assets end of year	\$ 539	475

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased by 7.7%, or approximately \$80,000. The total cost of all programs and services decreased by approximately \$238,000, or 21%. Operating grants, contributions and restricted interest increased \$100,000, or 46%, over the prior year due to an increase in donations for the Civic Center and City parks. This increase was offset by a decrease in capital grants, contributions and restricted interest and a decrease in tax increment financing (TIF) receipts. These decreases were primarily due to a Homeland Security grant received in the prior year and less TIF taxes certified for fiscal 2007. The significant decrease in disbursements was due to less debt service disbursements in fiscal 2007. In fiscal 2006, the City redeemed a 2000 general obligation bond in its entirety. This decrease was offset by an increase in culture and recreation disbursements for new playground equipment.

The City decreased overall property tax rates for 2007 by 9.4%, primarily due to an elimination of the debt service levy. This decrease, coupled with an increase in property valuations of approximately 12%, increased the City's property tax receipts by \$16,000 in 2007.

The cost of all governmental activities this year was \$888,000 compared to \$1,127,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 14 and 15, the amount taxpayers ultimately financed for these activities was only \$393,372 because some of the cost was paid by those who directly benefited from the programs (\$178,116) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$316,693).

Changes in Cash Basis Net Assets of Business Type Activities		
(Expressed in Thousands)		
	Year ended	
	June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 171	181
Sewer	284	286
Capital grants, contributions and restricted interest	54	189
General receipts:		
Bond proceeds	131	333
Miscellaneous	3	-
Total receipts	<u>643</u>	<u>989</u>
Disbursements:		
Water	241	244
Sewer	446	749
Total disbursements	<u>687</u>	<u>993</u>
Change in cash basis net assets before transfers	(44)	(4)
Transfers, net	-	33
Change in cash basis net assets	<u>(44)</u>	<u>29</u>
Cash basis net assets beginning of year	<u>342</u>	<u>313</u>
Cash basis net assets end of year	<u>\$ 298</u>	<u>342</u>

Total business type activities receipts for the fiscal year were \$643,000 compared to \$989,000 last year, a 35% decrease. The decrease was due primarily to the receipt of bond proceeds in 2006. Total disbursements for the fiscal year decreased by 31% due to a sewer project primarily completed during fiscal 2007. The cash balance decreased \$44,000 from the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Wapello completed the year, its governmental funds reported a combined cash balance of \$539,213, an increase of \$64,070 from last year's total of \$475,143. The following are reasons for significant changes in cash balances, if any, of the major funds from the prior year.

- The General Fund cash balance increased nominally (\$12,391) from the prior year to \$383,237.
- The Road Use Tax Fund cash balance increased \$20,883 to \$65,342. Receipts remained constant but disbursements decreased due to the completion of the asphalt contract in 2006.
- The Tax Increment Financing Fund cash balance increased \$46,601 to \$74,088. The increase was due to tax increment financing receipts with no corresponding disbursements during fiscal 2007.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$69,387 to \$69,512. While receipts and disbursements remained relatively constant, transfers in from the Tax Increment Financing Fund decreased.
- The Sewer Fund cash balance increased \$25,342 to \$228,601 due to decreased capital project activity in fiscal year 2007.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 29, 2007 to provide for additional disbursements in certain City departments.

The City's receipts were \$169,694 more than budgeted. This was primarily due to the City receiving more in miscellaneous donations than anticipated for the Civic Center and City parks.

Total disbursements were \$106,366 more than the amended budget. This was primarily due to costs paid for public safety, culture and recreation, debt service and business type activities being more than anticipated through June 30, 2007.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$723,759 in bonds and other long-term debt outstanding, compared to \$656,078 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2007	2006
General obligation note	\$ 122,078	144,446
Water and sewer revenue bank loan	138,886	146,665
General obligation sewer bank loan	32,795	-
Revenue bond	430,000	364,967
Total	\$ 723,759	656,078

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 \$154,873 is significantly below its constitutional debt limit of \$3.6 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 2008 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 because the City has received an Administrative Consent Order from the State. Plans will need to be established and put into place.
- The governmental funds activities have some changes to next year's budget. The Briggs Civic Center is still undergoing repairs and upkeep. A security system is being discussed as a result of break-ins at the VFW bar located in the Civic Center. Property tax rebates will continue to be paid to four businesses in the City. The property tax rebates are for the City's portion of the taxes on the new buildings. The fund raising project for the new playground is near completion. The playground equipment has been purchased but more equipment is desired so the fund raising efforts continue. The Police department purchased a K-9 dog. The K-9 program will be funded through donations.
- The City received a five year extension for the TIF area. Plans to install more infrastructure in the Odessa Subdivision, Patrick's Subdivision and the Industrial Park are underway. This infrastructure will be funded by TIF through interfund loans or general obligation bonds.
- The City is collecting local option sales tax for fiscal year 2008. On a monthly basis, one-half of the local option sales tax must be sent to the Louisa County Auditor to help pay for a new county jail located in rural Louisa county.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact 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, 2007

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants and Contributions
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 163,328	13,403	28,869	-
Public works	276,829	116,642	177,889	-
Culture and recreation	313,630	28,663	103,190	-
General government	117,799	19,408	6,745	-
Debt service	16,595	-	-	-
Total governmental activities	888,181	178,116	316,693	-
Business type activities:				
Water	241,028	170,998	-	-
Sewer	446,571	283,895	-	54,385
Total business type activities	687,599	454,893	-	54,385
Total Primary Government	\$ 1,575,780	633,009	316,693	54,385
Component Unit:				
Wapello Fire and Rescue, Inc.	\$ 157,561	-	142,395	-
General Receipts:				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Unrestricted interest on investments				
Bond and loan proceeds				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year, as restated				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal purposes				
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				Component
Primary Government				Unit
Governmental Activities	Business Type Activities	Total		Wapello Fire and Rescue, Inc.
(121,056)	-	(121,056)		-
17,702	-	17,702		-
(181,777)	-	(181,777)		-
(91,646)	-	(91,646)		-
(16,595)	-	(16,595)		-
<u>(393,372)</u>	<u>-</u>	<u>(393,372)</u>		<u>-</u>
-	(70,030)	(70,030)		-
-	(108,291)	(108,291)		-
-	(178,321)	(178,321)		-
<u>(393,372)</u>	<u>(178,321)</u>	<u>(571,693)</u>		<u>-</u>
-	-	-		<u>(15,166)</u>
398,746	-	398,746		-
46,601	-	46,601		-
790	-	790		-
4,430	336	4,766		3,435
-	131,033	131,033		60,000
6,875	2,907	9,782		-
<u>457,442</u>	<u>134,276</u>	<u>591,718</u>		<u>63,435</u>
64,070	(44,045)	20,025		48,269
<u>475,143</u>	<u>342,158</u>	<u>817,301</u>		<u>225,716</u>
<u>\$ 539,213</u>	<u>298,113</u>	<u>837,326</u>		<u>273,985</u>
\$ 65,342	-	65,342		-
74,088	-	74,088		-
16,546	36,880	53,426		-
-	38,490	38,490		-
<u>383,237</u>	<u>222,743</u>	<u>605,980</u>		<u>273,716</u>
<u>\$ 539,213</u>	<u>298,113</u>	<u>837,326</u>		<u>273,716</u>

City of Wapello

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

As of and for the year ended June 30, 2007

	General	Special Revenue	
		Road Use Tax	Tax Increment Financing
Receipts:			
Property and other city tax	\$ 398,746	-	-
Tax increment financing	-	-	46,601
Licenses and permits	21,486	-	-
Use of money and property	28,290	-	-
Intergovernmental	20,498	177,889	-
Charges for service	135,330	-	-
Miscellaneous	122,576	45	-
Total receipts	726,926	177,934	46,601
Disbursements:			
Operating:			
Public safety	163,328	-	-
Public works	119,778	157,051	-
Culture and recreation	313,630	-	-
General government	117,799	-	-
Debt service	-	-	-
Total disbursements	714,535	157,051	-
Net change in cash balances	12,391	20,883	46,601
Cash balances beginning of year, as restated	370,846	44,459	27,487
Cash balances end of year	\$ 383,237	65,342	74,088
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	383,237	-	-
Special revenue funds	-	65,342	74,088
Total cash basis fund balances	\$ 383,237	65,342	74,088

See notes to financial statements.

<u>Nonmajor</u>	
<u>Debt</u>	
<u>Service</u>	<u>Total</u>
790	399,536
-	46,601
-	21,486
-	28,290
-	198,387
-	135,330
-	122,621
<u>790</u>	<u>952,251</u>
-	163,328
-	276,829
-	313,630
-	117,799
<u>16,595</u>	<u>16,595</u>
<u>16,595</u>	<u>888,181</u>
(15,805)	64,070
<u>32,351</u>	<u>475,143</u>
<u>16,546</u>	<u>539,213</u>
16,546	16,546
-	383,237
-	139,430
<u>16,546</u>	<u>539,213</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, 2007

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 162,648	283,895	446,543
Miscellaneous	8,657	2,600	11,257
Total operating receipts	171,305	286,495	457,800
Operating disbursements:			
Business type activities	232,739	240,162	472,901
Excess (deficiency) of operating receipts over (under) operating disbursements	(61,434)	46,333	(15,101)
Non-operating receipts (disbursements):			
Use of money and property	336	-	336
Bond proceeds	-	82,033	82,033
Bank loan proceeds	-	49,000	49,000
Capital project	-	(139,174)	(139,174)
Debt service	(8,289)	(67,235)	(75,524)
Total non-operating receipts (disbursements)	(7,953)	(75,376)	(83,329)
Excess (deficiency) of receipts over (under) disbursements	(69,387)	(29,043)	(98,430)
Other receipts:			
Capital contributions:			
Special assessments	-	14,240	14,240
Community Development Block Grant	-	40,145	40,145
Total other receipts	-	54,385	54,385
Net change in cash balances	(69,387)	25,342	(44,045)
Cash balances beginning of year	138,899	203,259	342,158
Cash balances end of year	\$ 69,512	228,601	298,113
Cash Basis Fund Balances			
Reserved for:			
Customer deposits	\$ 38,490	-	38,490
Debt service	-	36,880	36,880
Unreserved	31,022	191,721	222,743
Total cash basis fund balances	\$ 69,512	228,601	298,113

See notes to financial statements.

City of Wapello

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

The City of Wapello is a political subdivision of the State of Iowa located in Louisa County. It was first incorporated in 1856 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Wapello has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Wapello (the primary government) and its component unit. The component unit discussed below are included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

Wapello Fire and Rescue, Inc. has been incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504A of the Code of Iowa, for the purpose of aiding in the extinguishing of fires and performing such other duties as set forth by the Wapello Volunteer Fire Department. 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. In accordance with criteria set forth by the Governmental Accounting Standards Board, Wapello Fire and Rescue, Inc. meets the definition of a component unit which should be discretely presented.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Louisa County Assessor's Conference Board, Louisa County Joint E911 Service Board and Louisa County Emergency Management Agency. The City also participates in the Louisa Regional Solid Waste Agency, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

B. Basis of Presentation

Government-wide Financial Statement – The 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 Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

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, 2007, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, debt service and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 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, 2007, the City had the following investments:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Maturity</u>
U.S. Treasury Notes	\$ 5,000	5,025	10/31/11
U.S. Treasury Notes	<u>25,000</u>	<u>25,125</u>	11/30/08
Total	<u>\$ 30,000</u>	<u>30,150</u>	

Interest rate risk – The City’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Long-Term Debt

Bonds and Notes Payable

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

Year Ending June 30,	General Obligation		Sewer Revenue		Total	
	Note		Bond			
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 23,395	5,588	17,000	13,410	40,395	18,998
2009	24,607	4,376	18,000	12,390	42,607	16,766
2010	25,866	3,118	18,000	11,850	43,866	14,968
2011	27,189	1,794	19,000	11,310	46,189	13,104
2012	21,021	403	19,000	10,740	40,021	11,143
2013 - 2017	-	-	105,000	44,730	105,000	44,730
2018 - 2022	-	-	122,000	27,990	122,000	27,990
2023 - 2026	-	-	112,000	8,490	112,000	8,490
Total	\$ 122,078	15,279	430,000	140,910	552,078	156,189

The Code of Iowa requires principal and interest on general obligation notes be paid from the Debt Service Fund. However, during the year, \$22,368 of general obligation note principal was paid from the Sewer Fund.

Sewer Revenue Bond

On June 2, 2005, the City entered into a State Revolving loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of a \$447,000 sewer revenue bond with interest at 3.0% 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 drew down funds from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2007 the City had drawn \$447,000.

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

Revenue Bank loan

On September 17, 1998, the City obtained a bank loan for \$190,000 to finance water and sewer improvements. The loan is to be repaid in twenty annual installments of \$16,579, including interest at 6% per annum, beginning October 1, 1999.

Pursuant to the loan agreement, the loan is authorized under Chapter 384.24A(5) of the Code of Iowa and is payable from the City's water and sewer funds. During the year ended June 30, 2007, the City paid \$7,779 of principal on the loan, leaving a balance at June 30, 2007 of \$138,886.

General Obligation Bank loan

On March 9, 2007, the City obtained a bank loan for \$49,000 to finance the cleaning and lining of a sewer line. The loan is payable in twelve monthly installments of \$4,149, including interest at 3% per annum, beginning April 1, 2007. During the year ended June 30, 2007, the City paid principal of \$16,205 on the loan, leaving a balance at June 30, 2007 of \$32,795.

Wapello Fire and Rescue, Inc. Bank loan

On January 16, 2007, Wapello Fire and Rescue, Inc., a discretely presented component unit, obtained a bank loan for \$60,000 to help finance the purchase of a fire chassis. During the year ended June 30, 2007, the loan was repaid in its entirety, including interest at 5.94% per annum.

(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, 2007, 2006 and 2005 were \$18,065, \$16,598 and \$15,044, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid.

Employees eligible for retirement will receive one-half of their accumulated sick leave balance. However, the employees must have earned the maximum days allowable before sick leave benefits under this plan are effective. No employees were eligible for sick leave benefits at June 30, 2007.

The City's approximate liability for earned vacation hours payable to employees at June 30, 2007, primarily relating to the General Fund, was \$16,900. This liability has been computed based on rates of pay in effect at June 30, 2007.

(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) Rebate and Development Agreements

The City has entered into three tax increment financing rebate agreements. The City agreed to assist in urban renewal projects by rebating incremental taxes paid by the participating companies with respect to the improvements set forth in the urban renewal plan. The incremental taxes to be received by the City under Chapter 403.19 of the Code of Iowa from participating companies will be rebated for a period of five years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The total amount that will be rebated in any fiscal year for the three tax increment financing rebate agreements will not exceed 100% for the first year, 80% for the second year, 60% for the third year, 40% for the fourth year and 20% for the fifth year. The actual amount rebated during the year ended June 30, 2007 was \$1,933. The Code of Iowa requires tax increment financing rebates be paid from the Tax Increment Financing Fund. However, during the year, \$1,933 of tax increment financing rebates were paid from the General Fund.

The City has also entered into one development agreement in accordance with Chapter 15A of the Code of Iowa. The agreement was for the construction a new Dollar General store located in the City. The City agreed to reimburse certain property taxes paid by the developer for five years. The tax reimbursement will be 100% in the first year, 80% for the second year, 60% for the third year, 40% for the fourth year and 20% for the fifth year. The first year reimbursement of \$3,402 was paid from the General Fund during the ended June 30, 2007.

(8) Subsequent Events

In August 2007, the City approved a bid of \$127,964 for Mulberry Street improvements. In October 2007, the City approved the purchase of a truck with a utility box, crane and plow for \$56,667. The street improvements and truck will be financed with funds on hand at the City.

(9) Restatement

The beginning cash basis net assets of the governmental activities and governmental funds have been restated to reflect the reclassification of Wapello Fire and Rescue, Inc. from a component unit blended into the Special Revenue Funds to a discrete presentation pursuant to criteria established by the Governmental Accounting Standards Board. The detail of the restatement is as follows:

Governmental activities and governmental funds:	
Cash basis net assets and fund balances, June 30, 2006, as previously reported	\$ 700,859
Reclassification of Wapello Fire and Rescue, Inc. to a discrete presentation	<u>(225,716)</u>
Cash basis net assets and fund balances, July 1, 2006, as restated	<u>\$ 475,143</u>

City of Wapello

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property and other city tax	\$ 399,536	-	399,536
Tax increment financing	46,601	-	46,601
Licenses and permits	21,486	-	21,486
Use of money and property	28,290	336	28,626
Intergovernmental	198,387	40,145	238,532
Charges for service	135,330	446,543	581,873
Special assessments	-	14,240	14,240
Miscellaneous	122,621	11,257	133,878
Total receipts	952,251	512,521	1,464,772
Disbursements:			
Public safety	163,328	-	163,328
Public works	276,829	-	276,829
Culture and recreation	313,630	-	313,630
General government	117,799	-	117,799
Debt service	16,595	-	16,595
Business type activities	-	687,599	687,599
Total disbursements	888,181	687,599	1,575,780
Excess (deficiency) of receipts over (under) disbursements	64,070	(175,078)	(111,008)
Other financing sources, net	-	131,033	131,033
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	64,070	(44,045)	20,025
Balances beginning of year, as restated	475,143	342,158	817,301
Balances end of year	\$ 539,213	298,113	837,326

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total Variance
399,270	399,270	266
51,033	51,033	(4,432)
4,195	4,195	17,291
6,500	6,500	22,126
187,641	187,641	50,891
638,939	638,939	(57,066)
7,500	7,500	6,740
-	-	133,878
<u>1,295,078</u>	<u>1,295,078</u>	<u>169,694</u>
151,800	156,800	(6,528)
296,606	296,606	19,777
212,777	264,113	(49,517)
124,043	124,043	6,244
-	-	(16,595)
509,852	627,852	(59,747)
<u>1,295,078</u>	<u>1,469,414</u>	<u>(106,366)</u>
-	(174,336)	63,328
-	174,336	(43,303)
-	-	20,025
<u>1,006,942</u>	<u>1,006,942</u>	<u>(189,641)</u>
<u>1,006,942</u>	<u>1,006,942</u>	<u>(169,616)</u>

City of Wapello

Notes to Required Supplementary Information–Budgetary Reporting

June 30, 2007

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 except the discretely presented component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund 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 \$174,336. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, debt service and business type activities functions.

Other Supplementary Information

City of Wapello
 Schedule of Indebtedness
 Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Primary government:			
General obligation note:			
Water and sewer construction	May 9, 2002	5.00%	\$ 227,665
Revenue bond:			
Sewer	Jun 2, 2005	3.00%	\$ 447,000
Bank loans:			
Water and sewer revenue	Sep 17, 1998	6.00%	\$ 190,000
General obligation sewer	Mar 9, 2007	3.00	49,000
Total			
Discretely presented component unit:			
Bank loan:			
Fire chassis	Jan 16, 2007	5.94%	\$ 60,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
144,446	-	22,368	122,078	6,624
364,967	82,033	17,000	430,000	12,954
146,665	-	7,779	138,886	8,800
-	49,000	16,205	32,795	390
\$ 146,665	49,000	23,984	171,681	9,190
-	60,000	60,000	-	605

Schedule 2

City of Wapello
Bond and Note Maturities
June 30, 2007

Year Ending June 30,	General Obligation Note Water and Sewer Construction Issued May 9, 2002			Revenue Bond	
	Interest Rates	Amount	Total	Interest Rates	Amount
2008	5.00%	\$ 23,395	23,395	3.00%	\$ 17,000
2009	5.00	24,607	24,607	3.00	18,000
2010	5.00	25,866	25,866	3.00	18,000
2011	5.00	27,189	27,189	3.00	19,000
2012	5.00	21,021	21,021	3.00	19,000
2013		-	-	3.00	20,000
2014		-	-	3.00	20,000
2015		-	-	3.00	21,000
2016		-	-	3.00	22,000
2017		-	-	3.00	22,000
2018		-	-	3.00	23,000
2019		-	-	3.00	24,000
2020		-	-	3.00	24,000
2021		-	-	3.00	25,000
2022		-	-	3.00	26,000
2023		-	-	3.00	27,000
2024		-	-	3.00	28,000
2025		-	-	3.00	28,000
2026		-	-	3.00	29,000
Total		<u>\$ 122,078</u>	<u>122,078</u>		<u>\$430,000</u>

See accompanying independent auditor's report.

City of Wapello

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

For the Last Five Years

	2007	2006	2005	2004	2003
Receipts:					
Property and other city tax	\$ 399,536	383,917	379,516	388,312	392,878
Tax increment financing	46,601	103,795	97,319	60,240	43,476
Licenses and permits	21,486	19,373	20,114	19,606	5,224
Use of money and property	28,290	10,014	13,208	11,283	16,535
Intergovernmental	198,387	324,316	197,004	365,128	247,483
Charges for service	135,330	134,159	133,396	127,059	124,214
Miscellaneous	122,621	106,014	143,952	98,564	85,464
Total	\$ 952,251	1,081,588	984,509	1,070,192	915,274
Disbursements:					
Operating:					
Public safety	\$ 163,328	330,627	195,402	166,751	159,505
Public works	276,829	301,510	350,321	305,250	273,179
Health and social services	-	-	-	154,000	-
Culture and recreation	313,630	194,706	194,587	203,080	195,381
Community and economic development	-	-	-	-	-
General government	117,799	133,330	130,106	127,951	109,695
Debt service	16,595	201,861	61,172	61,781	62,372
Total	\$ 888,181	1,162,034	931,588	1,018,813	800,132

See accompanying independent auditor's report.

City of Wapello

**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**

City of Wapello



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

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report on 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, the discretely presented component unit and the remaining fund information of the City of Wapello, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 30, 2007. Our report expressed unqualified opinions 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Wapello's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Wapello's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Wapello's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Wapello's financial statements that is more than inconsequential will not be prevented or detected by the City of Wapello's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Wapello's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A) and (C) are material weaknesses.

Compliance and Other Matters

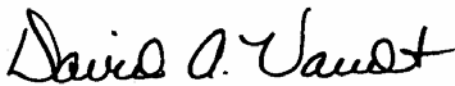
As part of obtaining reasonable assurance about whether the City of Wapello's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters 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, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

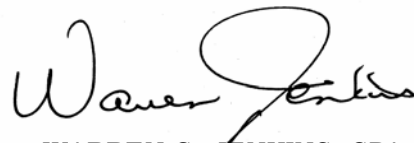
The City of Wapello's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Wapello's responses and, accordingly, we express no opinion on them.

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

November 30, 2007

City of Wapello
Schedule of Findings
Year ended June 30, 2007

Findings Related to the Financial Statements:

REPORTABLE CONDITION:

- (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 disbursements transactions, and handling and recording cash.
 - (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
 - (4) Long term debt – recording and reconciling.
 - (5) Receipts – collecting, depositing, journalizing, posting and reconciling.
 - (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
 - (7) Disbursements – preparing, recording and reconciling.
 - (8) Payroll – preparing and distributing.
 - (9) Computer usage – performing all general accounting functions, preparation of journal entries and controlling data input and output.
 - (10) Financial reporting – preparing, reconciling and distributing.

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

Response – The City will review its operating procedures.

Conclusion – Response accepted.

City of Wapello
Schedule of Findings
Year ended June 30, 2007

(B) 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 and/or preventing the reuse of the same password.
- Requiring lock out if password is incorrectly entered three times in a row.
- Requiring passwords to uniquely identify users of system and input.
- 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.
- Reviewing computer journal entries to be reviewed and approved by an independent individual.

Additionally, the written disaster recovery plan does not include:

- 1) List of computer equipment necessary for temporary operations.
- 2) Keeping the plan at a safe off site facility.
- 3) Inventory of all hardware.

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 strive to revise and update the computer usage policy.

Conclusion – Response accepted.

City of Wapello

Schedule of Findings

Year ended June 30, 2007

- (C) Bank Reconciliations and Financial Reports – Complete monthly bank to book reconciliations were not prepared, including all City bank accounts and investments. Monthly financial reports were not prepared and provided to the City Council for its review and approval.

Recommendation–Monthly bank to book reconciliations should be prepared, including all City bank accounts and investments. Variances, if any, should be resolved timely. Monthly financial reports and bank to book reconciliations should be provided to the City Council each month for its review and approval.

Response–Monthly financial reports will be provided to the Council each month.

Conclusion – Response acknowledged. In addition, complete monthly bank to book reconciliations which include all City accounts and investments should be prepared.

- (D) Utility Reconciliation– Although the City reconciles billings, collections and receivables monthly, the reconciliations are not reviewed by an independent person and variances are not resolved.

Recommendation – The City’s monthly utility reconciliations should be reviewed by someone independent of collecting, recording and reconciling utility collections. Variances identified in the reconciliations should be resolved timely.

Response–The City will try to provide a solution to this finding.

Conclusion–Response accepted.

- (E) Investments– The City does not maintain an investment record. Additionally, interest on investments was not recorded and reconciled to an investment record.

Recommendation – A detailed investment record should be maintained detailing the investment number, date purchased, maturity date, interest rate, fund(s) held for, interest earned and any other information the City feels is necessary. This record should be kept current each month and reconciled to the bank and financial accounting records on a monthly basis.

Response–The City will start and maintain an investment record.

Conclusion–Response accepted.

City of Wapello

Schedule of Findings

Year ended June 30, 2007

(F) Wapello Fire and Rescue, Inc. – 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 Wapello Fire and Rescue, Inc., 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 – Wapello Fire and Rescue, Inc. should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response–The city will request the Fire Department to review its operating procedures.

Conclusion–Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Wapello

Schedule of Findings

Year ended June 30, 2007

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget—Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the public safety, culture and recreation, debt service and business type activities 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.”

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 in a timely manner.

Conclusion—Response accepted.

- (2) Questionable Disbursements—Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted.

On December 7, 2006, the City Council approved payment of \$50 in Louisa Bucks to all full-time City employees.

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

We were unable to determine whether these payments were processed through payroll and were subject to the appropriate tax withholdings.

Recommendation—The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation of public benefit. The City should also determine whether the payments were properly accounted for through payroll and were subject to the appropriate tax withholdings.

Response—The city will review this practice and make revisions for the next fiscal year.

Conclusion—Response accepted.

- (3) Travel Expense—No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Wapello

Schedule of Findings

Year ended June 30, 2007

- (4) Business Transactions—Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Matt Gish, City employee, owner of Gun Pro, Inc.	Professional gunsmithing	\$ 2,110
Shawn Maine, Council Member, owner of Midwest Rod Restoration	Squad car repair	77
Lewann Bryant, Librarian, Husband owns Bryant Construction	Miscellaneous	11

The transactions with Council Member Maine and the Librarian's husband do not represent conflicts of interest in accordance with Chapter 362.5(10) of the Code of Iowa since the cumulative totals for each individual during the fiscal year were less than \$1,500.

The transactions with Matt Girsh may represent a conflict of interest since total transactions exceeded \$1,500 during the fiscal year.

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

Response—The City will consult with legal counsel.

Conclusion—Response accepted.

- (5) Bond Coverage—Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bond – No instances of noncompliance with the sewer revenue bond resolution were noted.
- (9) Separately Maintained Records – The Keck Memorial Library maintains separate accounting records for its operations. Although monthly financial reports are prepared and provided to the City, the individual transaction activity is not included on the City's computer system or in the City's accounting records or financial reports.

City of Wapello

Schedule of Findings

Year ended June 30, 2007

In addition, the Police Department K-9 and Equipment accounts were not included on the City's computer system and/or on the monthly financial reports.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's computer system, accounting records and be reported to the Council on a monthly basis.

Response–The City is working with their software provider to get all accounts on the computer.

Conclusion–Response accepted.

- (10) Electronic Check Retention–Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation–The City should obtain and retain an image of both the front and back of each check as required.

Response – The City will work with the bank to get an image of the back of each check.

Conclusion–Response accepted.

- (11) Payment of General Obligation Note – Principal and interest on the City's general obligation note was paid from the Sewer Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation notes, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation–The City should transfer from the Sewer Fund to the Debt Service Fund for future funding contributions. Payments on the note should be made from the Debt Service Fund as required.

Response–The City will transfer from the Sewer Fund to the Debt Service Fund and pay the notes from the Debt Service Fund.

Conclusion–Response accepted.

- (12) Urban Renewal Tax Increment (TIF) Rebate Agreements – During the years ending June 30, 2007 and 2006, urban renewal tax increment rebate payments of \$1,933 and \$3,622, respectively, were made from the General Fund. In accordance with Chapter 403.19(2) of the Code of Iowa, TIF debt payments should be made from the Special Revenue, Tax Increment Financing Fund.

City of Wapello

Schedule of Findings

Year ended June 30, 2007

Recommendation – Future tax increment financing rebate payments should be made from the Special Revenue, Tax Increment Financing Fund as required by Chapter 403.19(2) of the Code of Iowa. The City should transfer \$5,555 from the Tax Increment Financing Fund to the General fund to correct the payment errors for fiscal 2007 and 2006.

Response – The City will pay TIF rebate payments from the TIF account. The corrective transfers will be made with the help of the City's software company.

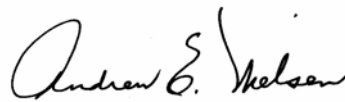
Conclusion – Response accepted.

City of Wapello

Staff

This audit was performed by:

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