



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

February 16, 2009

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 \$1,658,804 for the year ended June 30, 2008, a 3.9 percent increase over 2007. The receipts included \$427,218 in property tax, \$193,892 from tax increment financing, \$83,314 from local option sales tax, \$641,583 from charges for service, \$277,632 from operating grants, contributions and restricted interest, \$8,083 from capital grants and contributions, \$7,780 from unrestricted interest on investments and \$19,302 from other general receipts.

Disbursements for the year totaled \$1,839,979, a 16.8 percent increase over the prior year, and included \$359,503 for public works, \$281,162 for public safety and \$234,978 for culture and recreation. Disbursements for business type activities totaled \$791,407.

The significant increase in disbursements is due primarily to equipment purchases for the police department, a contribution of local option sales tax receipts to the County for a new jail and increased road projects during fiscal 2008.

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, 2008

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City of Wapello
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2008)		
Roger Nobel	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
(After January 2008)		
Ron Durbin	Mayor	Jan 2010
Larry Wagg	Mayor Pro tem	Jan 2012
Shawn Maine	Council Member	Jan 2010
Kermit L. Peterson	Council Member	Jan 2010
Josh R. Drayfahl	Council Member	Jan 2012
Kevin Hardin	Council Member	Jan 2012
Adam Parsons	Council Member	Jan 2012
Randy Tillmann	Council Member	Jan 2012
Celia Drayfahl	City Clerk	Indefinite
Karen Gittings	Deputy Clerk	(Resigned)
Cindy Bockes (Appointed)	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 and the discretely presented component unit and remaining fund information of the City of Wapello, Iowa, as of and for the year ended June 30, 2008, 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.

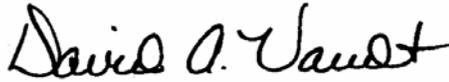
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

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 discretely presented component unit and remaining fund information of the City of Wapello as of June 30, 2008, 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 January 7, 2009 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 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 five years ended June 30, 2007 (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 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

January 7, 2009

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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 24.4%, or approximately \$233,000, from fiscal 2007 to fiscal 2008. Property tax increased approximately \$27,000 and tax increment financing increased approximately \$147,000.
- Disbursements of the City's governmental activities increased 17.9%, or approximately \$159,000, from fiscal 2007 to fiscal 2008. Public safety disbursements increased approximately \$118,000 while public works disbursements increased approximately \$83,000.
- The City's total cash basis net assets decreased 21.6%, or approximately \$181,000, from June 30, 2007 to June 30, 2008. Of this amount, the net assets of the governmental activities increased approximately \$138,000 and the net assets of the business type activities decreased approximately \$319,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and 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, Tax Increment Financing and Local Option Sales Tax, 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.

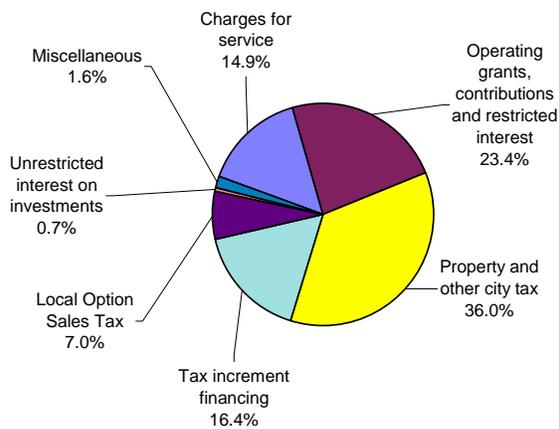
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased \$137,630 from a year ago, from \$539,213 to \$676,843. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

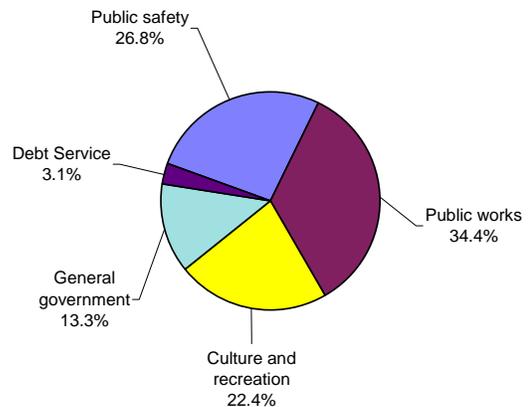
Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service	\$ 177	178
Operating grants, contributions and restricted interest	278	317
General receipts:		
Property and other city tax	427	400
Tax increment financing	194	47
Local option sales tax	83	-
Unrestricted interest on investments	8	4
Miscellaneous	19	7
Total receipts	1,186	953
Disbursements:		
Public safety	281	163
Public works	360	277
Culture and recreation	235	314
General government	139	118
Debt service	33	17
Total disbursements	1,048	889
Change in cash basis net assets	138	64
Cash basis net assets beginning of year	539	475
Cash basis net assets end of year	\$ 677	539

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 24.4%, or approximately \$233,000. The total cost of all programs and services increased approximately \$159,000, or 17.9%. Operating grants, contributions and restricted interest decreased approximately \$39,000, or 12%, from the prior year due to a decrease in donations for the police department and City parks. This decrease was offset by an increase in tax increment financing (TIF) receipts of approximately \$147,000. The increase in TIF receipts is because the City certified more TIF debt for fiscal 2008. The significant increase in disbursements was due to increased public safety and public works disbursements in fiscal 2008. During fiscal 2008, the City purchased a police vehicle for approximately \$13,000, paid additional payroll expenses of approximately \$14,000 for overtime and a part-time officer and paid approximately \$42,000 of local option sales tax to the County to help with costs associated with construction of a new jail. The cost of improvements to City streets also increased.

The City's property tax collections increased 6.75%, primarily due to the City levying for debt service in 2008. This increase, coupled with a decrease in property values of approximately 9%, increased the City's property tax receipts approximately \$27,000.

The cost of all governmental activities this year was approximately \$1,048,000 compared to approximately \$889,000 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 \$593,641 because some of the cost was paid by those who directly benefited from the programs (\$177,299) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$277,632).

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 183	171
Sewer	281	284
Capital grants, contributions and restricted interest	8	54
General receipts:		
Bond proceeds	-	131
Miscellaneous	-	3
Total receipts	<u>472</u>	<u>643</u>
Disbursements:		
Water	341	241
Sewer	450	446
Total disbursements	<u>791</u>	<u>687</u>
Change in cash basis net assets	(319)	(44)
Cash basis net assets beginning of year	<u>298</u>	<u>342</u>
Cash basis net assets end of year	<u>\$ (21)</u>	<u>298</u>

Total business type activities receipts for the fiscal year were approximately \$472,000 compared to approximately \$643,000 last year, a 26.6% decrease. The decrease was due primarily to the receipt of \$131,033 of bond proceeds and \$40,145 of Community Development Block Grant proceeds in fiscal year 2007. Total disbursements for the fiscal year increased 15.1% due to sewer and water projects completed in fiscal 2008. The cash balance decreased approximately \$319,000 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 \$676,843, an increase of \$137,630 over last year’s total of \$539,213. 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 decreased a nominal \$24,478 from the prior year.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$56,036 to \$9,306. Receipts remained constant but disbursements increased due to increased street projects in fiscal year 2008.
- The Special Revenue, Tax Increment Financing Fund cash balance increased \$182,659 to \$256,747. The increase was due to the City certifying more tax increment debt for fiscal year 2008.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$158,147 to \$(88,635). While receipts remained relatively constant, increasing 6.8%, disbursements increased due to increased capital project activity in fiscal year 2008. Certain of these disbursements, as well as disbursements from previous years, are considered loans from the Special Revenue, Tax Increment Financing Fund and will be repaid with TIF receipts.
- The Sewer Fund cash balance decreased \$160,658 to \$67,943 due to capital project activity in fiscal year 2008.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on June 27, 2008 to provide for additional disbursements in the public safety function for payments to the County for new jail construction and additional disbursements in the public works department for street projects.

The City’s receipts were \$128,199 more than budgeted. This was primarily due to the City receiving more donations for the police department and City parks and tax increment financing than was budgeted.

Total disbursements were \$98,057 less than the amended budget. Disbursements for public works, general government, debt service and business type activities were less than anticipated through June 30, 2008.

DEBT ADMINISTRATION

At June 30, 2008, the City had \$640,179 in bonds, notes and other long-term debt outstanding, compared to \$723,759 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2008	2007
General obligation note	\$ 96,539	122,078
Water and sewer revenue bank loan	130,640	138,886
General obligation sewer bank loan	-	32,795
Revenue bond	413,000	430,000
Total	\$ 640,179	723,759

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 \$107,189, including annually appropriated tax increment financing rebate agreements of \$10,650, 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 2009 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 governmental funds activities have some changes to next year's budget. The Briggs Civic Center is still undergoing repair and updates to the building. The City swimming pool will require repair mandated by the State with a cost of approximately \$25,000. The police department will be adding one full time officer and one part-time officer. The police department will continue to fundraise for a police K9 dog. The fire department has requested a new fire truck and a new fire station, although no decision has been made. The City hopes to update the accounting software to allow for better workflow.
- Plans to install more infrastructure in the Odessa subdivision are underway. Commerce Drive in the Industrial District will be completed in Fiscal 2009. This infrastructure will be funded by TIF through interfund loans and general obligation bonds.
- The City will start collecting a five dollar per property combined sewer overflow fee. This fee will help with funding the required improvements to the City sewer system to separate the sanitary and storm sewer systems.

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, 2008

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants and Contributions
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 281,162	14,948	37,638	-
Public works	359,503	117,926	182,859	-
Culture and recreation	234,978	22,534	54,369	-
General government	139,740	21,891	2,766	-
Debt service	33,189	-	-	-
Total governmental activities	1,048,572	177,299	277,632	-
Business type activities:				
Water	341,421	183,039	-	-
Sewer	449,986	281,245	-	8,083
Total business type activities	791,407	464,284	-	8,083
Total Primary Government	\$ 1,839,979	641,583	277,632	8,083
Component Unit:				
Wapello Fire and Rescue, Inc.	\$ 213,787	-	56,046	-
General Receipts:				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Local option sales tax				
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				
Primary Government			Component Unit	
Governmental Activities	Business Type Activities	Total	Wapello Fire and Rescue, Inc.	
(228,576)	-	(228,576)	-	
(58,718)	-	(58,718)	-	
(158,075)	-	(158,075)	-	
(115,083)	-	(115,083)	-	
(33,189)	-	(33,189)	-	
(593,641)	-	(593,641)	-	
-	(158,382)	(158,382)	-	
-	(160,658)	(160,658)	-	
-	(319,040)	(319,040)	-	
(593,641)	(319,040)	(912,681)	-	
-	-	-	(157,741)	
\$ 378,591	-	378,591	-	
193,892	-	193,892	-	
48,627	-	48,627	-	
83,314	-	83,314	-	
7,545	235	7,780	766	
19,302	-	19,302	-	
731,271	235	731,506	766	
137,630	(318,805)	(181,175)	(156,975)	
539,213	298,113	837,326	273,985	
\$ 676,843	(20,692)	656,151	117,010	
\$ 9,306	-	9,306	-	
20,047	-	20,047	-	
256,747	-	256,747	-	
31,984	39,840	71,824	-	
-	41,510	41,510	-	
358,759	(102,042)	256,717	-	
\$ 676,843	(20,692)	656,151	-	

City of Wapello

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

As of and for the year ended June 30, 2008

	Special Revenue		
	General	Road Use Tax	Tax Increment Financing
Receipts:			
Property tax	\$ 378,591	-	-
Tax increment financing	-	-	193,892
Other city tax			
Licenses and permits	20,999	-	-
Use of money and property	19,544	-	-
Intergovernmental	25,888	182,858	-
Charges for service	134,642	-	-
Miscellaneous	97,847	-	-
Total receipts	677,511	182,858	193,892
Disbursements:			
Operating:			
Public safety	281,162	-	-
Public works	120,609	238,894	-
Culture and recreation	234,978	-	-
General government	139,740	-	-
Debt service	-	-	-
Total disbursements	776,489	238,894	-
Excess (deficiency) of receipts over (under) disbursements	(98,978)	(56,036)	193,892
Other financing sources (uses):			
Operating transfers in	74,500	-	-
Operating transfers out	-	-	(11,233)
Total other financing sources (uses)	74,500	-	(11,233)
Net change in cash balances	(24,478)	(56,036)	182,659
Cash balances beginning of year	383,237	65,342	74,088
Cash balances end of year	\$ 358,759	9,306	256,747
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	358,759	-	-
Special revenue funds	-	9,306	256,747
Total cash basis fund balances	\$ 358,759	9,306	256,747

See notes to financial statements.

Nonmajor	Total
48,627	427,218
-	193,892
83,314	83,314
-	20,999
-	19,544
-	208,746
-	134,642
-	97,847
<u>131,941</u>	<u>1,186,202</u>
-	281,162
-	359,503
-	234,978
-	139,740
33,189	33,189
<u>33,189</u>	<u>1,048,572</u>
<u>98,752</u>	<u>137,630</u>
-	74,500
(63,267)	(74,500)
<u>(63,267)</u>	<u>-</u>
35,485	137,630
16,546	539,213
<u>52,031</u>	<u>676,843</u>
31,984	31,984
-	358,759
<u>20,047</u>	<u>286,100</u>
<u>52,031</u>	<u>676,843</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, 2008

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 172,726	279,958	452,684
Miscellaneous	10,313	1,287	11,600
Total operating receipts	183,039	281,245	464,284
Operating disbursements:			
Business type activities	160,967	160,422	321,389
Excess of operating receipts over operating disbursements	22,072	120,823	142,895
Non-operating receipts (disbursements):			
Use of money and property	235	-	235
Capital projects	(172,165)	(218,901)	(391,066)
Debt service	(8,289)	(70,663)	(78,952)
Total non-operating receipts (disbursements)	(180,219)	(289,564)	(469,783)
Deficiency of receipts under disbursements	(158,147)	(168,741)	(326,888)
Other receipts:			
Capital contributions:			
Special assessments	-	8,083	8,083
Net change in cash balances	(158,147)	(160,658)	(318,805)
Cash balances beginning of year	69,512	228,601	298,113
Cash balances end of year	\$ (88,635)	67,943	(20,692)
Cash Basis Fund Balances			
Reserved for:			
Customer deposits	\$ 41,510	-	41,510
Debt service	-	39,840	39,840
Unreserved	(130,145)	28,103	(102,042)
Total cash basis fund balances	\$ (88,635)	67,943	(20,692)

See notes to financial statements.

City of Wapello

Notes to Financial Statements

June 30, 2008

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

Discretely Presented Component Unit

Wapello Fire and Rescue, Inc. 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, 2008, disbursements exceeded the amount budgeted in the culture and recreation function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 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, 2008, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
U.S. Treasury Notes	\$ 5,000	5,025	10/31/2011
U.S. Treasury Notes	25,000	25,125	11/30/2008
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 Note		Revenue Bond		Total	
	Water and Sewer Construction		Sewer			
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 22,657	3,914	18,000	12,390	40,657	16,304
2010	23,409	3,162	18,000	11,850	41,409	15,012
2011	24,607	1,965	19,000	11,310	43,607	13,275
2012	25,866	706	19,000	10,740	44,866	11,446
2013	-	-	20,000	10,170	20,000	10,170
2014-2018	-	-	108,000	41,580	108,000	41,580
2019-2023	-	-	126,000	24,330	126,000	24,330
2024-2026	-	-	85,000	5,130	85,000	5,130
Total	\$ 96,539	9,747	413,000	127,500	509,539	137,247

The Code of Iowa requires principal and interest on general obligation notes be paid from the Debt Service Fund. However, during the year, \$31,399 of general obligation note principal and interest 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.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$447,000 in sewer revenue bonds issued in June 2005. Proceeds from the bonds provided financing for the construction of improvements and extensions to the City’s sewer system. The bonds are payable solely from sewer customer net receipts and are payable through 2026. Annual principal and interest payments on the bonds are expected to require less than 25 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$540,500. For the current year, principal and interest paid and total customer net receipts were \$29,900 and \$120,823, respectively.

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, 2008, the City paid \$8,246 of principal on the loan, leaving a balance at June 30, 2008 of \$130,640.

The City has pledged future water and sewer customer receipts, net of specified operating disbursements, to repay the \$190,000 bank loan. The loan is payable solely from water and sewer customer net receipts and is payable through 2018. Annual principal and interest payments on the loan are expected to require less than 38 percent and 7 percent of net receipts in the water and sewer funds, respectively. For the current year, \$8,289 and \$8,290 of principal and interest were paid from the water and sewer funds, respectively. Total customer net receipts were \$22,072 and \$120,823 in the water and sewer funds, respectively.

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, 2008, the loan was paid off in its entirety.

(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 3.90% of their annual covered salary and the City is required to contribute 6.05% 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, 2008, 2007 and 2006 were \$20,189, \$18,065 and \$16,598, 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, 2008.

The City's approximate liability for earned vacation hours payable to employees at June 30, 2008, primarily relating to the General Fund, was \$19,000. This liability has been computed based on rates of pay in effect at June 30, 2008.

(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, 2008 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 63,267
	Tax Increment Financing	11,233
Total		\$ 74,500

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

(8) 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, 2008 was \$1,167. The Code of Iowa requires tax increment financing rebates be paid from the Tax Increment Financing Fund. However, during the year, \$1,167 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 second year reimbursement of \$2,486 was paid from the General Fund during the ended June 30, 2008.

(9) Interfund Loans

The detail of interfund loans at June 30, 2008 is as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
Special Revenue:	Enterprise:	
Tax Increment Financing	Water	\$ 208,250
	Sewer	<u>268,473</u>
Total		<u>\$ 476,723</u>

The loans represent amounts paid from the water and sewer funds for costs associated with the City's urban renewal projects. These loans will be repaid through transfers from the Special Revenue, Tax Increment Financing Fund as receipts of the fund become available.

(10) Deficit Balance

At June 30, 2008, the Enterprise, Water Fund had a deficit unreserved fund balance of \$130,145. The deficit balance is the result of interfund loans made to the Special Revenue, Tax Increment Financing Fund that have not been repaid.

(11) Subsequent Events

On October 2, 2008, the City authorized the issuance of a \$214,000 general obligation corporate purpose note to provide funds to pay for street construction. The note will be repaid with tax increment financing receipts.

On October 2, 2008, the City authorized the issuance of a \$66,712 general obligation corporate purpose note to provide funds to pay for a tractor loader backhoe. The City plans to repay the note with water and sewer revenues.

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, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 427,218	-	427,218
Tax increment financing	193,892	-	193,892
Other city tax	83,314	-	83,314
Licenses and permits	20,999	-	20,999
Use of money and property	19,544	235	19,779
Intergovernmental	208,746	-	208,746
Charges for service	134,642	452,684	587,326
Special assessments	-	8,083	8,083
Miscellaneous	97,847	11,600	109,447
Total receipts	1,186,202	472,602	1,658,804
Disbursements:			
Public safety	281,162	-	281,162
Public works	359,503	-	359,503
Culture and recreation	234,978	-	234,978
General government	139,740	-	139,740
Debt service	33,189	-	33,189
Business type activities	-	791,407	791,407
Total disbursements	1,048,572	791,407	1,839,979
Excess (deficiency) of receipts over (under) disbursements	137,630	(318,805)	(181,175)
Other financing sources, net	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	137,630	(318,805)	(181,175)
Balances beginning of year	539,213	298,113	837,326
Balances end of year	\$ 676,843	(20,692)	656,151

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total Variance
408,281	408,281	18,937
177,000	177,000	16,892
102,539	102,539	(19,225)
3,995	3,995	17,004
4,300	4,300	15,479
188,916	188,916	19,830
638,074	638,074	(50,748)
7,500	7,500	583
-	-	109,447
<u>1,530,605</u>	<u>1,530,605</u>	<u>128,199</u>
243,940	285,775	4,613
297,881	384,924	25,421
225,922	225,922	(9,056)
167,100	167,100	27,360
49,000	49,000	15,811
546,762	825,315	33,908
<u>1,530,605</u>	<u>1,938,036</u>	<u>98,057</u>
-	(407,431)	226,256
-	407,431	(407,431)
-	-	(181,175)
<u>874,224</u>	<u>874,224</u>	<u>(36,898)</u>
<u>874,224</u>	<u>874,224</u>	<u>(218,073)</u>

City of Wapello

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

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 \$407,431. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the culture and recreation function.

Other Supplementary Information

City of Wapello

City of Wapello

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

As of and for the year ended June 30, 2008

	Special Revenue		
	Local Option Sales Tax	Debt Service	Total
Receipts:			
Property tax	\$ -	48,627	48,627
Other city tax	83,314	-	83,314
Total receipts	83,314	48,627	131,941
Disbursements:			
Debt service	-	33,189	33,189
Excess of receipts over disbursements	83,314	15,438	98,752
Other financing uses:			
Operating transfers out	(63,267)	-	(63,267)
Net change in cash balances	20,047	15,438	35,485
Cash balances beginning of year	-	16,546	16,546
Cash balances end of year	\$ 20,047	31,984	52,031
Cash Basis Fund Balances			
Reserved for debt service	\$ -	31,984	31,984
Unreserved:			
Special revenue funds	20,047	-	20,047
Total cash basis fund balances	\$ 20,047	31,984	52,031

See accompanying independent auditor's report.

City of Wapello
Schedule of Indebtedness
Year ended June 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
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			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
122,078	-	25,539	96,539	5,860
430,000	-	17,000	413,000	12,900
138,886	-	8,246	130,640	8,333
32,795	-	32,795	-	394
\$ 171,681	-	41,041	130,640	8,727

Schedule 3

City of Wapello
Bond and Note Maturities
June 30, 2008

Year Ending June 30,	General Obligation Note		Revenue Bond	
	Water and Sewer Construction		Sewer	
	Issued May 9, 2002		Issued June 2, 2005	
	Interest Rates	Amount	Interest Rates	Amount
2009	5.00%	\$ 22,657	3.00%	\$ 18,000
2010	5.00	23,409	3.00	18,000
2011	5.00	24,607	3.00	19,000
2012	5.00	25,866	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>\$ 96,539</u>		<u>\$ 413,000</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 Six Years

	2008	2007	2006	2005	2004	2003
Receipts:						
Property tax	\$ 427,218	399,536	383,917	379,516	388,312	392,878
Tax increment financing	193,892	46,601	103,795	97,319	60,240	43,476
Other city tax	83,314	-	-	-	-	-
Licenses and permits	20,999	21,486	19,373	20,114	19,606	5,224
Use of money and property	19,544	28,290	10,014	13,208	11,283	16,535
Intergovernmental	208,746	198,387	324,316	197,004	365,128	247,483
Charges for service	134,642	135,330	134,159	133,396	127,059	124,214
Miscellaneous	97,847	122,621	106,014	143,952	98,564	85,464
Total	\$ 1,186,202	952,251	1,081,588	984,509	1,070,192	915,274
Disbursements:						
Operating:						
Public safety	\$ 281,162	163,328	330,627	195,402	166,751	159,505
Public works	359,503	276,829	301,510	350,321	305,250	273,179
Health and social services	-	-	-	-	154,000	-
Culture and recreation	234,978	313,630	194,706	194,587	203,080	195,381
General government	139,740	117,799	133,330	130,106	127,951	109,695
Debt service	33,189	16,595	201,861	61,172	61,781	62,372
Total	\$ 1,048,572	888,181	1,162,034	931,588	1,018,813	800,132

See accompanying independent auditor's report.

City of Wapello



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the discretely presented component unit and remaining fund information of the City of Wapello, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 7, 2009. 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, including 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, 2008 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

January 7, 2009

City of Wapello
Schedule of Findings
Year ended June 30, 2008

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. For the City, one individual has control over one or more of the following areas:
- (1) Accounting system – performing all general accounting functions and having custody of assets.
 - (2) Cash – preparing bank reconciliations, initiating cash 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.

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- (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 the password is incorrectly entered three times in a row.
- Requiring passwords to uniquely identify users of system and input.
- Requiring timeout or logoff functions to be utilized when terminals are left unattended.
- Requiring 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 disaster recovery plan is being updated. The City is hoping to purchase a newer version of the software this fiscal year which will help with updated security features.

Conclusion – Response acknowledged. The City should also establish written policies for password security, lockout functions and review of journal entries by an independent person.

- (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 including all city accounts and activity 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, including all city accounts and activity and bank to book reconciliations, should be provided to the City Council each month for its review and approval.

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Response – The City will be able to accomplish this after working with the software company to balance the computer with the bank.

Conclusion – Response accepted.

- (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 review this recommendation and strive for a solution.

Conclusion – Response accepted.

- (E) Financial Reporting – During the audit, we identified \$6,398 of property tax incorrectly posted to the Special Revenue, Tax Increment Financing Fund rather than the Debt Service Fund. Also, \$18,097 of road use tax collections were misclassified as miscellaneous receipts rather than intergovernmental receipts. Adjustments were subsequently made by the City to properly reflect those amounts in the financial statements.

Recommendation – The City should implement procedures to ensure financial transactions are properly recorded in the City’s financial records.

Response – The City will review this recommendation and work towards a solution.

Conclusion – Response accepted.

- (F) Investments – The City does not maintain 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 believes is necessary. This record should be kept current each month and should be reconciled to the bank and financial accounting records on a monthly basis.

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

Conclusion – Response accepted.

- (G) Wapello Fire and Rescue, Inc. – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from performing duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. For Wapello Fire and Rescue, Inc., one individual has control over one or more of the following areas:

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(1) Cash – preparing bank account reconciliations, initiating cash receipts and disbursement functions, and handling and recording cash.

(2) Receipts – collecting, depositing, posting and reconciling.

Wapello Fire and Rescue Inc. does not maintain an investment register showing the certificate of deposit activity for the fiscal year.

During the audit of Wapello Fire and Rescue Inc. records, we noted several checks had been signed in advance.

Recommendation – Wapello Fire and Rescue, Inc. should review its operating procedures to obtain the maximum internal control possible under the circumstances and should maintain an investment register documenting the investment activity of each investment held during the year. In addition, checks should only be signed when the completed check and appropriate supporting documentation is available for review.

Response – The City will request Wapello Fire and Rescue, Inc. to review its operating procedures.

Conclusion – Response accepted.

(H) Disbursements – Invoices and supporting documentation were not always marked paid or canceled to prevent possible duplicate payment.

Recommendation – All invoices and supporting documentation should be canceled to prevent possible duplicate payment.

Response – The City will try to ensure all invoices are stamped with the paid stamp.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

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Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2008 exceeded the amount budgeted in the culture and recreation function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City will strive to amend the budget in the appropriate 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 17, 2007, 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 no longer make disbursements of this nature.

Conclusion – Response accepted.

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

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

Name, Title, and Business Connection	Transaction Description	Amount
Shawn Maine, Council Member, owner of Midwest Rod Restoration	Squad car repair	\$ 360
Adam Parsons, Council Member, employed at Hicklin & Mathews	Legal services	120
Larry Wagg, Council Member, owner of Browns Repair	Lawnmower repairs	1,174
Llewann Bryant, Librarian, husband employed at Bryant Construction	Window replacement	110
Celia Drayfahl, City Clerk, husband employed at 3-D Fabrications	Weigh station repair	2,275

The transactions with Council Member Maine, Council Member Parsons, Council Member Wagg 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 transaction with the City Clerk's husband 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 legal counsel regarding this matter.

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.

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- (9) Separately Maintained Records – The Keck Memorial Library maintains separate accounting records for its operations. Although monthly financial reports are prepared and provided to the City, the activity is not included in the City’s computer system or in the City’s accounting records or financial reports.

In addition, the Police Department K-9, Police Equipment, Briggs Center, Chief Wapello Days and various parks and recreation accounts were not included in 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 will work with the software company to make the changes requested and keep a record of all City funds 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 request this from the bank.

Conclusion – Response accepted.

- (11) Payment of General Obligation Note – Principal and interest on the City’s general obligation note was paid from the Enterprise, 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 Enterprise, 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 money from the Enterprise, Sewer Fund to the Debt Service Fund as required.

Conclusion – Response accepted.

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- (12) Urban Renewal Tax Increment (TIF) Rebate Agreements – During the years ended June 30, 2008, 2007, 2006 and 2005, urban renewal tax increment rebate payments of \$1,167, \$1,933, \$3,622 and \$4,511, 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. A transfer of \$11,233 from the Special Revenue, Tax Increment Financing Fund to the General Fund has been reflected in the City's financial statements.

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.

Response – The City has made the corrective transfers.

Conclusion – Response acknowledged. The City should also establish procedures to ensure future tax increment financing rebate payments are made from the Special Revenue, Tax Increment Financing Fund as required.

- (13) Tax Increment Financing - Prior to July 1, 2007, the City approved \$476,723 of interfund loans from the Water and Sewer Funds to the Special Revenue, Tax Increment Financing Fund (TIF Fund). On December 1, 2006, the City certified \$292,927 of these interfund loans as tax increment financing debt. During fiscal 2008, the City collected \$193,892 of tax increment financing receipts. These receipts, along with the \$74,088 July 1, 2007 balance in the TIF Fund have not been used by the City to repay the interfund loans as required by Chapter 403.19 of the Code of Iowa. The TIF Fund balance at June 30, 2008 is \$256,747.

Recommendation – The City should review the amounts due on interfund loans at June 30, 2008 and transfer the TIF Fund balance of \$256,747 to the Enterprise, Water and Sewer Funds, as appropriate, to repay a portion of the interfund loans. As future tax increment financing receipts are collected, the City should transfer the appropriate amounts to repay the water and sewer interfund loans.

Response – The City will transfer the appropriate amounts as receipts are collected.

Conclusion – Response accepted.

- (14) Financial Condition – The City had a deficit unreserved fund balance of \$130,145 in the Enterprise, Water Fund. The deficit is the result of interfund loans made to the Special Revenue, Tax Increment Financing Fund that have not been repaid. As noted in (13) above, funds are available to repay a portion of these loans.

Recommendation – The City should repay interfund loans from the Water Fund as TIF receipts become available.

Response – The City will repay the interfund loans as soon as TIF dollars become available.

Conclusion – Response accepted.

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Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Michael J. Hackett, Senior Auditor
Marta M. Sobieszkoda, Staff Auditor
Robert N. Hanna, Audit Intern

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

Andrew E. Nielsen, CPA
Deputy Auditor of State