

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

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Auditor of State

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NEWS RELEASE

FOR RELEASE _____ January 11, 2018 _____

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515/281-5834

Auditor of State Mary Mosiman today released an audit report on the City of Wapello, Iowa.

The City's receipts totaled \$2,545,528 for the year ended June 30, 2017, an 11.5% decrease from the prior year. The receipts included \$593,135 of property tax, \$338,126 of tax increment financing, \$128,269 of local option sales tax, \$942,072 of charges for service, \$354,204 of operating grants, contributions and restricted interest, \$62,048 of capital grants and contributions, \$1,515 of unrestricted interest on investments and \$126,159 of other general receipts.

Disbursements for the year ended June 30, 2017 totaled \$2,572,165, a 16.3% decrease from the prior year, and included \$432,797 for public safety, \$425,017 for public works and \$385,567 for debt service. Also, disbursements for business type activities totaled \$790,716.

A copy of the audit 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 <https://auditor.iowa.gov/reports/1720-0562-B00F>.

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CITY OF WAPELLO

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

JUNE 30, 2017

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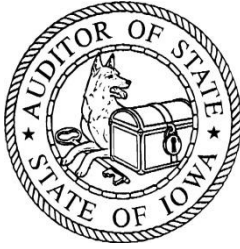
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City of Wapello

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Shawn Maine	Mayor	Jan 2018
Larry Wagg	Mayor Pro tem	Jan 2020
Kenny Marlette	Council Member	Jan 2018
Roger Noble	Council Member	Jan 2018
Eric Small	Council Member	Jan 2018
Brett Shafer	Council Member	Jan 2018
Gene Arnold	Council Member	Jan 2020
Richard Taylor	Council Member	Jan 2020
Mike Delzell	City Clerk	Indefinite
Cindy Brockes	Deputy Clerk	Indefinite
Adam Parsons	Attorney	Indefinite

City of Wapello



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

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 aggregate remaining fund information of the City of Wapello, Iowa, as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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 aggregate remaining fund information of the City of Wapello as of June 30, 2017, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information


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 third paragraph of this report, the financial statements for the nine years ended June 30, 2016 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The 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.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 7 through 12 and 32 through 38, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 20, 2017 on our consideration of the City of Wapello's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Wapello's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

December 20, 2017

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, 2017. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2017 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 10.4%, or approximately \$212,000, from fiscal year 2016 to fiscal year 2017. The decrease was primarily due to bond proceeds received in the prior year. Capital grants and contributions increased approximately \$62,000, operating grants, contributions and restricted interest increased approximately \$34,000 and miscellaneous general revenue increased approximately \$98,000 due to insurance reimbursements received for damaged roofs on City buildings.
- Disbursements of the City's governmental activities decreased 19.0%, or approximately \$417,000, from fiscal year 2016 to fiscal year 2017. The decrease was largely due to a decrease in public works disbursements of approximately \$292,000 due to the North 2nd Street sidewalk and street project in the prior year. Culture and recreation disbursements decreased approximately \$43,000, general government disbursements decreased approximately \$49,000 and debt service disbursements decreased approximately \$107,000.
- The City's total cash basis net position decreased 2.4%, or approximately \$27,000, from June 30, 2016 to June 30, 2017. Of this amount, the cash basis net position of the governmental activities increased approximately \$10,000 and the cash basis net position of the business type activities decreased approximately \$37,000.

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 Cash Basis Statement of Activities and Net Position. 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 financial 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.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

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 Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

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

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, general government, debt service and capital projects. 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, Local Option Sales Tax and Employee Benefits, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent 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.

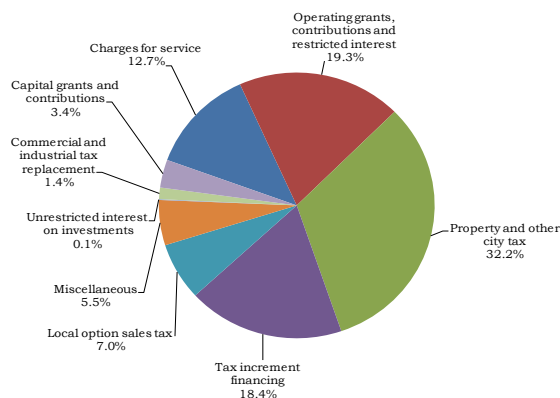
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

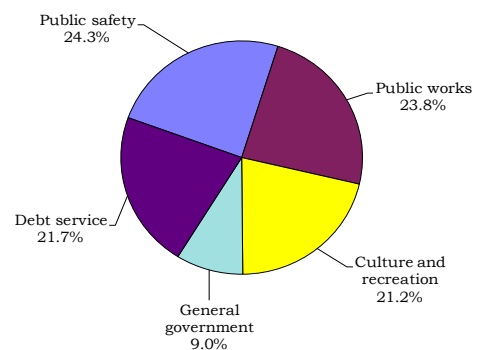
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from approximately \$668,000 to approximately \$678,000 during the year. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2017	2016
Receipts:		
Program receipts:		
Charges for service	\$ 233	233
Operating grants, contributions and restricted interest	354	320
Capital grants and contributions	62	-
General receipts:		
Property and other city tax	593	601
Tax increment financing	338	335
Local option sales tax	128	124
Unrestricted interest on investments	2	2
Bond/note proceeds	-	403
Commercial and industrial tax replacement	25	27
Miscellaneous	101	3
Total receipts	1,836	2,048
Disbursements:		
Public safety	433	331
Public works	425	717
Culture and recreation	378	421
General government	160	209
Debt service	386	493
Capital projects	-	28
Total disbursements	1,782	2,199
Change in cash basis net position before transfers	54	(151)
Transfers, net	(44)	(12)
Change in cash basis net position	10	(163)
Cash basis net position beginning of year	668	831
Cash basis net position end of year	\$ 678	668

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased 10.4%, or approximately \$212,000, from the prior year. The total cost of all programs and services decreased approximately \$417,000, or 19.0%. The receipts and disbursements decreased from the prior year due to debt issued for the North 2nd Street sidewalk and street repair project costs in fiscal year 2016.

The City's property tax collections decreased 1.3% during fiscal year 2017. The decrease was primarily due to a slight decrease in the City's tax rate and the taxable property valuations.

The cost of all governmental activities this year was approximately \$1,782,000, compared to approximately \$2,199,000 last year. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 14 and 15, the amount taxpayers ultimately financed for these activities was \$1,132,832 because some of the cost was paid by those who directly benefited from the programs (\$232,365) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$416,252).

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year Ended June 30,	
	2017	2016
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 229	218
Sewer	481	455
General receipts:		
Bond proceeds	-	155
Total receipts	710	828
Disbursements:		
Water	186	168
Sewer	605	704
Total disbursements	791	872
Change in cash basis net position before transfers	(81)	(44)
Transfers, net	44	12
Change in cash basis net position	(37)	(32)
Cash basis net position beginning of year	429	461
Cash basis net position end of year	\$ 392	429

Total business type activities receipts for fiscal year 2017 were approximately \$710,000 compared to approximately \$828,000 last year. The decrease was due to the receipt of sewer revenue bond proceeds in fiscal year 2016. Total disbursements for fiscal year 2017 decreased approximately \$81,000, or 9.3%, due to fewer capital outlay disbursements compared to the prior year. Cash basis net position decreased approximately \$37,000 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 \$678,112, an increase of \$9,982 from last year's total of \$668,130. 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 \$52,417, or 15.3%, from the prior year. This decrease was primarily due to an approximately \$65,000 purchase of defibrillators for the fire department.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$23,148 from the prior year. Receipts totaled \$288,408 and disbursements were \$275,549. In addition, transfers out of \$2,257 were made to the General Fund for health insurance and \$33,750 to the Debt Service Fund for payment of debt issued for street improvements.
- The Special Revenue, Tax Increment Financing Fund cash balance increased \$13,654 over the prior year. Transfers out to the Debt Service Fund totaled \$231,667 for repayment of tax increment financing obligations and transfers out to the Enterprise, Sewer Fund totaled \$100,000 to partially repay an interfund loan.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$69,286. Receipts totaled \$128,269 and disbursements of \$59,983 were made to the County to fund jail bond payments.
- The Special Revenue, Employee Benefits Fund cash balance remained the same as the prior year. The City transferred \$76,244 to the General Fund for benefits paid in the current year.
- The Debt Service Fund cash balance increased \$2,607 over the prior year. Receipts decreased \$2,675 from the prior year and disbursements decreased \$107,832 from the prior year due to a decrease in scheduled debt payments.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$9,255 to \$142,164.
- The Enterprise, Sewer Fund cash balance decreased \$45,874 to \$250,119 due to project costs funded from existing balances.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The amendments were approved on January 5, 2017 and May 18, 2017 and resulted in an increase of \$196,552 and \$24,755 respectively, in budgeted receipts and other financing sources primarily due to a fire grant, sale of equipment and insurance reimbursements for hail damage. Budgeted disbursements also increased \$382,882 and \$33,455 respectively, for the purchase of equipment, an increase in general insurance costs, combined sewer overflow work, furnace and air conditioning work and repair of storm damages.

The City's receipts were \$98,082 more than budgeted while disbursements were \$66,275 less than the amended budget. Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public works and culture and recreation functions.

DEBT ADMINISTRATION

At June 30, 2017, the City had \$4,484,154 of bonds, notes and other long-term debt outstanding, compared to \$4,972,835 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2017	2016
General obligation bonds/notes	\$ 1,470,154	1,815,225
Revenue bonds	3,006,000	3,145,610
Iowa Department of Public Safety loan	8,000	12,000
Total	\$ 4,484,154	4,972,835

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 \$1,478,154 is significantly below its constitutional debt limit of approximately \$4.3 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

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 2018 budget, tax rates and fees charged for various City activities. Circumstances which could significantly affect its financial health in the future are as follows:

The City is working on an Administrative Consent Order to separate storm and sanitary sewers by September 1, 2020.

The City had a master plan created for its North Park and will be implementing the master plan as funding becomes available.

The Wapello Firemen have asked the City Council to consider building a new fire station.

The City is working with Louisa County to build a new bridge on County Road 99 on the East end of the City limits.

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 Mike Delzell, City Clerk, 335 North Main Street, Wapello, Iowa 52653.

Basic Financial Statements

City of Wapello

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2017

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants and Contributions
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 432,797	13,559	39,102	62,048
Public works	425,017	147,666	288,603	-
Culture and recreation	378,108	40,034	26,499	-
General government	159,960	31,106	-	-
Debt service	385,567	-	-	-
Total governmental activities	1,781,449	232,365	354,204	62,048
Business type activities:				
Water	185,470	229,007	-	-
Sewer	605,246	480,700	-	-
Total business type activities	790,716	709,707	-	-
Total Primary Government	\$ 2,572,165	942,072	354,204	62,048
Component Unit:				
Wapello Fire and Rescue, Inc.	\$ 36,889	-	70,734	-
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Commercial and industrial tax replacement				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Nonexpendable:				
Library bequest				
Expendable:				
Parks and recreation				
Fire and rescue purposes				
Library purposes				
Local option sales tax purposes				
Streets				
Debt service				
Capital projects				
Customer deposits				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Wapello Fire and Rescue, Inc.
(318,088)	-	(318,088)	
11,252	-	11,252	
(311,575)	-	(311,575)	
(128,854)	-	(128,854)	
(385,567)	-	(385,567)	
(1,132,832)	-	(1,132,832)	
-	43,537	43,537	
-	(124,546)	(124,546)	
-	(81,009)	(81,009)	
(1,132,832)	(81,009)	(1,213,841)	
			33,845
\$ 518,223	-	518,223	-
74,912	-	74,912	-
338,126	-	338,126	-
128,269	-	128,269	-
1,515	-	1,515	-
25,343	-	25,343	-
100,816	-	100,816	-
(44,390)	44,390	-	-
1,142,814	44,390	1,187,204	-
9,982	(36,619)	(26,637)	33,845
668,130	428,902	1,097,032	144,798
\$ 678,112	392,283	1,070,395	178,643
\$ 30,000	-	30,000	-
35,572	-	35,572	-
-	-	-	178,643
37,532	-	37,532	-
164,999	-	164,999	-
158,559	-	158,559	-
24,642	17,372	42,014	-
8,764	-	8,764	-
-	73,308	73,308	-
218,044	301,603	519,647	-
\$ 678,112	392,283	1,070,395	178,643

City of Wapello

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

As of and for the year ended June 30, 2017

	Special Revenue			
	General	Road Use Tax	Tax Increment Financing	Local Option Sales Tax
Receipts:				
Property tax	\$ 444,258	-	-	-
Tax increment financing	-	-	338,126	-
Other city tax	-	-	-	128,269
Licenses and permits	21,688	-	-	-
Use of money and property	4,533	-	-	-
Intergovernmental	118,130	256,605	7,195	-
Charges for service	175,355	-	-	-
Miscellaneous	156,534	31,803	-	-
Total receipts	920,498	288,408	345,321	128,269
Disbursements:				
Operating:				
Public safety	373,814	-	-	58,983
Public works	149,468	275,549	-	-
Culture and recreation	378,108	-	-	-
General government	159,960	-	-	-
Debt service	-	-	-	-
Total disbursements	1,061,350	275,549	-	58,983
Excess (deficiency) of receipts over (under) disbursements	(140,852)	12,859	345,321	69,286
Other financing sources (uses):				
Transfers in	88,435	-	-	-
Transfers out	-	(36,007)	(331,667)	-
Total other financing sources (uses)	88,435	(36,007)	(331,667)	-
Change in cash balances	(52,417)	(23,148)	13,654	69,286
Cash balances beginning of year	343,565	181,707	6,494	95,713
Cash balances end of year	\$ 291,148	158,559	20,148	164,999
Cash Basis Fund Balances				
Nonspendable - Library bequest	\$ -	-	-	-
Restricted for:				
Parks and recreation	35,572	-	-	-
Library purposes	37,532	-	-	-
Local option sales tax purposes	-	-	-	164,999
Streets	-	158,559	-	-
Debt service	-	-	20,148	-
Capital projects	-	-	-	-
Assigned for police equipment	35,205	-	-	-
Assigned for fire equipment	4,500	-	-	-
Unassigned	178,339	-	-	-
Total cash basis fund balances	\$ 291,148	158,559	20,148	164,999

See notes to financial statements.

Employee Benefits	Debt Service	Nonmajor	Total
73,965	74,912	-	593,135
-	-	-	338,126
-	-	-	128,269
-	-	-	21,688
-	-	-	4,533
2,279	2,169	-	386,378
-	-	-	175,355
-	-	-	188,337
<u>76,244</u>	<u>77,081</u>	-	<u>1,835,821</u>
-	-	-	432,797
-	-	-	425,017
-	-	-	378,108
-	-	-	159,960
-	385,567	-	385,567
-	385,567	-	1,781,449
<u>76,244</u>	<u>(308,486)</u>	-	<u>54,372</u>
-	311,093	-	399,528
<u>(76,244)</u>	-	-	<u>(443,918)</u>
<u>(76,244)</u>	<u>311,093</u>	-	<u>(44,390)</u>
-	2,607	-	9,982
-	1,887	38,764	668,130
-	4,494	38,764	678,112
-	-	30,000	30,000
-	-	-	35,572
-	-	-	37,532
-	-	-	164,999
-	-	-	158,559
-	4,494	-	24,642
-	-	8,764	8,764
-	-	-	35,205
-	-	-	4,500
-	-	-	178,339
-	4,494	38,764	678,112

Exhibit C

City of Wapello

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

As of and for the year ended June 30, 2017

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 216,677	480,700	697,377
Miscellaneous	12,330	-	12,330
Total operating receipts	229,007	480,700	709,707
Operating disbursements:			
Business type activities	185,470	220,501	405,971
Excess of operating receipts over operating disbursements	43,537	260,199	303,736
Non-operating disbursements:			
Capital outlay	-	(170,589)	(170,589)
Debt service	-	(214,156)	(214,156)
Non-operating disbursements	-	(384,745)	(384,745)
Excess (deficiency) of receipts over (under) disbursements	43,537	(124,546)	(81,009)
Transfers:			
Transfers in	-	100,000	100,000
Transfers out	(34,282)	(21,328)	(55,610)
Net transfers	(34,282)	78,672	44,390
Change in cash balances	9,255	(45,874)	(36,619)
Cash balances beginning of year	132,909	295,993	428,902
Cash balances end of year	\$ 142,164	250,119	392,283
Cash Basis Fund Balances			
Restricted for:			
Debt service	\$ -	17,372	17,372
Customer deposits	73,308	-	73,308
Unrestricted	68,856	232,747	301,603
Total cash basis fund balances	\$ 142,164	250,119	392,283

See notes to financial statements.

City of Wapello

Notes to Financial Statements

June 30, 2017

(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. (Fire and Rescue) 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. Fire and Rescue 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, Fire and Rescue 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 E-911 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 Cash Basis Statement of Activities and Net Position 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 receipts, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position 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 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 from general and emergency levies 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 the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Tax Increment Financing Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Local Option Sales Tax Fund is used to account for local option sales and services tax receipts and related disbursements.

The Employee Benefits Fund is used to account for the property tax levy and disbursements or transfers out for employee benefits, such as health insurance, pensions, etc.

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

The City reports the following major proprietary funds:

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

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and 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.

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 position 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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restricted classifications – committed, assigned and then unassigned fund balances.

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. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the public works and culture and recreation functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2017 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 ensure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

(3) Long-Term Debt

Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes and sewer revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 322,763	34,921	142,000	63,530	464,763	98,451
2019	275,289	29,548	146,000	60,370	421,289	89,918
2020	103,438	24,685	149,000	57,115	252,438	81,800
2021	105,621	21,806	153,000	53,783	258,621	75,589
2022	107,840	18,862	157,000	50,367	264,840	69,229
2023-2027	432,203	50,280	819,000	198,057	1,251,203	248,337
2028-2032	123,000	5,273	660,000	106,405	783,000	111,678
2033-2037	-	-	380,000	54,583	380,000	54,583
2038-2042	-	-	400,000	21,280	400,000	21,280
Total	\$ 1,470,154	185,375	3,006,000	665,490	4,476,154	850,865

Sewer Revenue Bonds

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 \$447,000 of sewer revenue bonds with interest at 3.00% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa. During the year ended June 30, 2017, the City paid principal of \$22,000 and interest of \$4,480 on the bonds. At June 30, 2017, the outstanding principal balance was \$234,000.

On April 7, 2010, the City entered into a loan agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources for the issuance of \$900,000 of sewer revenue bonds with interest at 3.00% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the municipal wastewater treatment system. During the year ended June 30, 2017, the City paid principal of \$40,000 and interest of \$20,610 on the bonds. At June 30, 2017, the outstanding principal balance was \$647,000.

On July 1, 2011, the City entered into a loan agreement with the Iowa Finance Authority for the issuance of \$298,000 of sewer revenue bonds with interest at 3.00% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the municipal wastewater treatment system. During the year ended June 30, 2017, the City paid principal of \$13,000 and interest of \$7,200 on the bonds. At June 30, 2017, the outstanding principal balance was \$227,000.

On September 27, 2013, the City entered into a loan agreement with the Iowa Finance Authority for the issuance of up to \$393,000 of sewer revenue bonds with interest at 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the municipal wastewater treatment system. The City has completed the project drawing down a total of \$293,000 of the bonds. During the year ended June 30, 2017, the City paid principal of \$13,000 and interest of \$4,428 on the bonds. At June 30, 2017, the outstanding principal balance was \$240,000.

On August 29, 2014, the City entered into a loan agreement with the Iowa Finance Authority for the issuance of sewer revenue bonds of up to \$2,000,000 with interest at 2.00% per annum. The agreement also requires the City to annually pay a 0.25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the municipal wastewater treatment system. The City has completed the project drawing down a total of \$1,818,610 of the bonds. During the year ended June 30, 2017, the City paid principal of \$51,610 and interest of \$29,916 on the bonds. At June 30, 2017, the outstanding principal balance was \$1,658,000.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$3,756,610 of sewer revenue bonds issued in June 2005, April 2010, July 2011, September 2013 and August 2014. The bonds are payable solely from sewer customer net receipts and are payable through 2042. For the year ended June 30, 2017, annual principal and interest payments on the bonds required 79% of net receipts. The total principal and interest remaining to be paid on the bonds is \$3,671,490.

For the current year, principal and interest paid and total customer net receipts were \$206,244 and \$260,199, respectively.

The resolutions providing for the issuance of the sewer revenue bonds include the following provisions:

- (a) The bonds 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 receipts at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

Iowa Department of Public Safety Loan

On February 25, 2009, the City obtained a \$40,000 interest free loan from the Iowa Department of Public Safety to assist the City in purchasing a fire truck. The loan is to be repaid in 20 semi-annual installments of \$2,000 beginning on November 1, 2009. At June 30, 2017, the outstanding principal balance was \$8,000.

(4) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection member's monthly IPERS benefits includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2017 totaled \$37,225.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the City reported a liability of \$234,730 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the City's proportion was 0.003730%, which was an increase of 0.000251% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$37,175, \$97,075 and \$47,155, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 439,797	234,730	61,728

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(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.

The City's approximate liability for earned vacation hours payable to employees at June 30, 2017, primarily relating to the General Fund and the Enterprise, Water Fund, was approximately \$22,000. This liability has been computed based on rates of pay in effect at June 30, 2017.

(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, 2017 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road Use Tax	\$ 2,257
	Employee Benefits	76,244
	Enterprise:	
	Water	4,774
	Sewer	5,160
		<u>88,435</u>
Debt Service	Special Revenue:	
	Tax Increment Financing	231,667
	Road Use Tax	33,750
	Enterprise:	
	Water	29,508
	Sewer	16,168
		<u>311,093</u>
Enterprise: Sewer	Special Revenue: Tax Increment Financing	<u>100,000</u>
Total		<u>\$ 499,528</u>

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

(8) Rebate Agreements

The City has entered into four tax increment financing rebate agreements to assist in urban renewal projects by rebating incremental property tax paid by the developer with respect to the improvements set forth in the urban renewal plan. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developers will be rebated for a period of five years beginning with the tax year in which the property tax on the completed value of the improvements is first paid. During the year ended June 30, 2017, the City did not rebate any incremental property tax to the developers.

(9) Interfund Loan

The detail of interfund loans at June 30, 2017 is as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
Special Revenue: Tax Increment Financing	Enterprise: Sewer	<u>\$ 23,539</u>

The loan represents amounts paid from the Enterprise, Sewer Fund for costs associated with the City's urban renewal projects. The loan will be repaid through transfers from the Special Revenue, Tax Increment Financing Fund as receipts of the fund become available. During the year ended June 30, 2017, repayments of \$100,000 were made to the Enterprise, Sewer Fund.

(10) New Accounting Pronouncement

The City adopted the tax abatement disclosure guidance set forth in Governmental Accounting Standards Board Statement No. 77, Tax Abatement Disclosures. The Statement sets forth guidance for the disclosure of information about the nature and magnitude of tax abatements which will make these transactions more transparent to financial statement users. Adoption of the guidance did not have an impact on amounts reported in the financial statements.

(11) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information.

City of Wapello

Other 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

Other Information

Year ended June 30, 2017

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 593,135	-	593,135
Tax increment financing	338,126	-	338,126
Other city tax	128,269	-	128,269
Licenses and permits	21,688	-	21,688
Use of money and property	4,533	-	4,533
Intergovernmental	386,378	-	386,378
Charges for service	175,355	697,377	872,732
Special assessments	-	-	-
Miscellaneous	188,337	12,330	200,667
Total receipts	1,835,821	709,707	2,545,528
Disbursements:			
Public safety	432,797	-	432,797
Public works	425,017	-	425,017
Culture and recreation	378,108	-	378,108
Community and economic development	-	-	-
General government	159,960	-	159,960
Debt service	385,567	-	385,567
Business type activities	-	790,716	790,716
Total disbursements	1,781,449	790,716	2,572,165
Excess (deficiency) of receipts over (under) disbursements	54,372	(81,009)	(26,637)
Other financing sources, net	(44,390)	44,390	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	9,982	(36,619)	(26,637)
Balances beginning of year	668,130	428,902	1,097,032
Balances end of year	\$ 678,112	392,283	1,070,395

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
578,705	578,705	14,430
261,996	261,996	76,130
135,207	135,207	(6,938)
20,875	20,875	813
28,220	28,220	(23,687)
316,498	382,046	4,332
859,068	859,068	13,664
-	-	-
25,570	181,329	19,338
<u>2,226,139</u>	<u>2,447,446</u>	<u>98,082</u>
347,167	434,807	2,010
346,775	401,306	(23,711)
290,965	345,163	(32,945)
5,629	5,629	5,629
152,828	165,423	5,463
385,569	385,569	2
693,170	900,543	109,827
<u>2,222,103</u>	<u>2,638,440</u>	<u>66,275</u>
4,036	(190,994)	164,357
-	-	-
4,036	(190,994)	164,357
875,412	874,151	222,881
<u>879,448</u>	<u>683,157</u>	<u>387,238</u>

City of Wapello

Notes to Other Information – Budgetary Reporting

June 30, 2017

The budgetary comparison is presented 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, the Capital Projects Fund, the Permanent Fund and the Enterprise 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, two budget amendments increased budgeted disbursements by \$416,337. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the public works and culture and recreation functions.

City of Wapello

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Three Years*
(In Thousands)

Other Information

	2017	2016	2015
City's proportion of the net pension liability	0.003730%	0.003479%	0.003051%
City's proportionate share of the net pension liability	\$ 235	172	121
City's covered-employee payroll	\$ 380	373	336
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	61.84%	46.11%	36.01%
IPERS' net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Wapello

Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Last Ten Years
(In Thousands)

Other Information

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 37	35	35	30
Contributions in relation to the statutorily required contribution	<u>(37)</u>	<u>(35)</u>	<u>(35)</u>	<u>(30)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	\$ 402	380	373	336
Contributions as a percentage of covered-employee payroll	9.20%	9.21%	9.38%	8.93%

* - The City's covered-employee payroll information was not readily available. Therefore, contributions as a percentage of covered-employee payroll could not be calculated.

See accompanying independent auditor's report.

2013	2012	2011	2010	2009	2008
32	28	27	26	20	20
(32)	(28)	(27)	(26)	(20)	(20)
-	-	-	-	-	-
341	332	*	*	*	*
9.38%	8.43%	*	*	*	*

City of Wapello

Notes to Other Information – Pension Liability

Year ended June 30, 2017

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

Supplementary Information

City of Wapello

City of Wapello

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

As of and for the year ended June 30, 2017

	<u>Permanent</u>		Total
	Capital Projects	Library Bequest	
Receipts:			
None	\$ -	-	-
Disbursements:			
None	-	-	-
Change in cash balances	-	-	-
Cash balances beginning of year	8,764	30,000	38,764
Cash balances end of year	\$ 8,764	30,000	38,764
Cash Basis Fund Balances			
Nonspendable - library bequest	\$ -	30,000	30,000
Restricted for capital projects	8,764	-	8,764
Total cash basis fund balances	\$ 8,764	30,000	38,764

See accompanying independent auditor's report.

City of Wapello
Schedule of Indebtedness
Year ended June 30, 2017

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds/notes:			
Corporate purpose and refunding	Nov 1, 2012	1.00-2.00%	\$ 2,000,000
Swimming pool	Nov 20, 2013	2.85	775,000
Weaver Boulevard Storm Sewer	June 19, 2015	2.85	102,000
North 2nd Street Improvements	August 10, 2015	3.00	403,000
Total			
Revenue bonds:			
Sewer	Jun 2, 2005	* 3.00%	\$ 447,000
Sewer	Apr 7, 2010	* 3.00	900,000
Sewer	Jul 1, 2011	* 3.00	298,000
Sewer	Sep 27, 2013	* 1.75	293,000
Sewer	Aug 29, 2014	* 2.00	1,818,610
Total			
Iowa Department of Public Safety loan:			
Fire truck	Feb 25, 2009	0.00%	\$ 40,000

* The City is required to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
690,000	-	230,000	460,000	8,460
690,000	-	45,000	645,000	19,665
68,569	-	33,980	34,589	1,371
366,656	-	36,091	330,565	11,000
<u>\$ 1,815,225</u>	<u>-</u>	<u>345,071</u>	<u>1,470,154</u>	<u>40,496</u>
256,000	-	22,000	234,000	4,480
687,000	-	40,000	647,000	20,610
240,000	-	13,000	227,000	7,200
253,000	-	13,000	240,000	4,428
1,709,610	-	51,610	1,658,000	29,916
<u>\$ 3,145,610</u>	<u>-</u>	<u>139,610</u>	<u>3,006,000</u>	<u>66,634</u>
12,000	-	4,000	8,000	-

City of Wapello
Bond and Note Maturities
June 30, 2017

Year Ending June 30,	General Obligation Bonds/Notes					
	Corporate Purpose and Refunding		Swimming Pool		Storm Sewer	
	Issued November 1, 2012		Issued November 20, 2013		Issued June 19, 2015	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2018	1.10%	\$ 205,000	2.85%	\$ 46,000	2.00%	\$ 34,589
2019	1.25	190,000	2.85	47,000		-
2020	2.00	15,000	2.85	49,000		-
2021	2.00	15,000	2.85	50,000		-
2022	2.00	15,000	2.85	51,000		-
2023	2.00	20,000	2.85	53,000		-
2024	-	-	2.85	54,000		-
2025	-	-	2.85	56,000		-
2026	-	-	2.85	57,000		-
2027	-	-	2.85	59,000		-
2028	-	-	2.85	61,000		-
2029	-	-	2.85	62,000		-
Total		<u>\$ 460,000</u>		<u>\$ 645,000</u>		<u>\$ 34,589</u>

Year Ending June 30,	Revenue Bonds					
	Sewer		Sewer		Sewer	
	Issued June 2, 2005		Issued April 7, 2010		Issued July 1, 2011	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2018	3.00%	\$ 23,000	3.00%	\$ 41,000	3.00%	\$ 13,000
2019	3.00	24,000	3.00	42,000	3.00	14,000
2020	3.00	24,000	3.00	44,000	3.00	14,000
2021	3.00	25,000	3.00	45,000	3.00	14,000
2022	3.00	26,000	3.00	46,000	3.00	15,000
2023	3.00	27,000	3.00	48,000	3.00	15,000
2024	3.00	28,000	3.00	49,000	3.00	16,000
2025	3.00	28,000	3.00	51,000	3.00	16,000
2026	3.00	29,000	3.00	53,000	3.00	17,000
2027	-	-	3.00	54,000	3.00	17,000
2028	-	-	3.00	56,000	3.00	18,000
2029	-	-	3.00	58,000	3.00	19,000
2030	-	-	3.00	60,000	3.00	19,000
2031	-	-	-	-	3.00	20,000
2032	-	-	-	-	-	-
2033	-	-	-	-	-	-
2034	-	-	-	-	-	-
2035	-	-	-	-	-	-
2036	-	-	-	-	-	-
2037	-	-	-	-	-	-
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-
2041	-	-	-	-	-	-
2042	-	-	-	-	-	-
Total		<u>\$ 234,000</u>		<u>\$ 647,000</u>		<u>\$ 227,000</u>

See accompanying independent auditor's report.

North 2nd Street		
Issued August 10, 2015		
Interest Rates	Amount	Total
3.00%	\$ 37,174	322,763
3.00	38,289	275,289
3.00	39,438	103,438
3.00	40,621	105,621
3.00	41,840	107,840
3.00	43,095	116,095
3.00	44,388	98,388
3.00	45,720	101,720
	-	57,000
	-	59,000
	-	61,000
	-	62,000
	<u>\$ 330,565</u>	<u>1,470,154</u>

Sewer		Sewer		
Issued September 27, 2013		Issued August 29, 2014		
Interest Rates	Amount	Interest Rates	Amount	Total
1.75%	\$ 13,000	1.75%	\$ 52,000	142,000
1.75	13,000	1.75	53,000	146,000
1.75	13,000	1.75	54,000	149,000
1.75	14,000	1.75	55,000	153,000
1.75	14,000	1.75	56,000	157,000
1.75	14,000	1.75	57,000	161,000
1.75	15,000	1.75	58,000	166,000
1.75	15,000	1.75	59,000	169,000
1.75	15,000	1.75	61,000	175,000
1.75	15,000	1.75	62,000	148,000
1.75	16,000	1.75	63,000	153,000
1.75	16,000	1.75	64,000	157,000
1.75	16,000	1.75	66,000	161,000
1.75	17,000	1.75	67,000	104,000
1.75	17,000	1.75	68,000	85,000
1.75	17,000	1.75	70,000	87,000
	-	1.75	71,000	71,000
	-	1.75	73,000	73,000
	-	1.75	74,000	74,000
	-	1.75	75,000	75,000
	-	1.75	77,000	77,000
	-	1.75	78,000	78,000
	-	1.75	80,000	80,000
	-	1.75	82,000	82,000
	-	1.75	83,000	83,000
	<u>\$ 240,000</u>		<u>\$ 1,658,000</u>	<u>3,006,000</u>

City of Wapello

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

For the Last Ten Years

	2017	2016	2015	2014
Receipts:				
Property and other city tax	\$ 593,135	600,829	577,775	529,190
Tax increment financing	338,126	334,893	355,216	330,625
Local option sales tax	128,269	124,435	116,428	141,845
Licenses and permits	21,688	22,048	23,688	26,277
Use of money and property	4,533	6,394	5,751	5,960
Intergovernmental	386,378	332,525	351,082	249,832
Charges for service	175,355	169,969	164,844	156,276
Miscellaneous	188,337	54,599	54,105	97,983
Total	<u>\$ 1,835,821</u>	<u>1,645,692</u>	<u>1,648,889</u>	<u>1,537,988</u>
Disbursements:				
Operating:				
Public safety	\$ 432,797	330,925	389,191	358,653
Public works	425,017	716,542	371,256	281,825
Culture and recreation	378,108	420,658	282,366	207,566
General government	159,960	209,283	144,891	134,462
Debt service	385,567	493,399	440,536	370,783
Capital projects	-	28,418	-	1,103,141
Total	<u>\$ 1,781,449</u>	<u>2,199,225</u>	<u>1,628,240</u>	<u>2,456,430</u>

See accompanying independent auditor's report.

2013	2012	2011	2010	2009	2008
519,331	496,541	470,392	455,657	430,545	427,218
321,738	284,508	254,595	222,588	214,121	193,892
109,406	112,723	156,431	96,180	95,377	83,314
22,465	22,769	21,766	23,494	27,991	20,999
5,226	4,596	6,211	4,468	13,720	19,544
323,947	241,040	235,413	254,831	405,834	208,746
152,004	155,271	152,792	143,379	134,384	140,549
34,985	42,795	98,253	123,614	83,750	91,940
1,489,102	1,360,243	1,395,853	1,324,211	1,405,722	1,186,202
336,642	296,015	329,383	304,288	515,199	281,161
329,076	364,085	364,237	311,414	375,854	359,504
254,828	274,294	358,601	270,496	284,172	234,978
161,163	147,258	104,361	166,137	118,079	139,740
1,385,532	336,804	238,019	50,350	33,567	33,189
339,781	-	-	-	-	-
2,807,022	1,418,456	1,394,601	1,102,685	1,326,871	1,048,572

City of Wapello



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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 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, the financial statements of the governmental activities, the business type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of the City of Wapello, Iowa, as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 20, 2017. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Wapello's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Wapello's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Wapello's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Wapello's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (C) and (D) to be significant deficiencies.

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 which 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, 2017 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 the Findings

The City of Wapello's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Wapello's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.



MARY MOSIMAN, CPA
Auditor of State

December 20, 2017

City of Wapello

Schedule of Findings

Year ended June 30, 2017

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements.

Condition – 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, handling and recording cash receipt and disbursement transactions and preparing deposits.
- (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (4) Long-term debt – recording and reconciling.
- (5) Receipts – collecting, depositing, recording, posting and reconciling.
- (6) Utility receipts – entering rates, billing, collecting, depositing, posting and reconciling.
- (7) Disbursements – preparing, recording and reconciling.
- (8) Payroll – entering rates, preparing and distributing.
- (9) Financial reporting – preparing and posting journal entries.

For the Keck Memorial Library, one individual has control over one or more of the following areas:

- (1) Cash – preparing bank reconciliations, initiating cash receipt and disbursement transactions and handling and recording cash.
- (2) Receipts – collecting, depositing, posting and reconciling.
- (3) Disbursements – preparing, recording and reconciling.

Cause – The City and Library have a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

City of Wapello

Schedule of Findings

Year ended June 30, 2017

Effect – Inadequate segregation of duties could adversely affect the City’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City and the Keck Memorial Library should review their operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be documented by the signature or initials of the independent reviewer and the date of the review.

Response – The City and Keck Memorial Library will review the existing procedures and implement additional procedures where possible.

Conclusion – Response accepted.

(B) Reconciliation of Utility Billings, Collections and Accounts Receivable

Criteria – An effective internal control system provides for internal controls related to reconciling utility billings, collections and accounts receivable listings to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of accounts receivable balances.

Condition – Although reconciliations of utility billings, collections and accounts receivables were prepared, the reconciliations included unresolved variances and did not properly foot.

Cause – Policies have not been established and procedures have not been implemented to resolve variances in the utility reconciliations.

Effect – This condition could result in unrecorded or misstated utility receipts, improper or unauthorized adjustments and write-offs and/or misstated accounts receivable balances.

Recommendation – Procedures should be established to ensure the accuracy of utility reconciliations and resolve variances, if any.

Response – The City will look into getting the variance resolved on the utility reconciliations.

Conclusion – Response accepted.

(C) Computer System

Criteria – Properly designed policies and procedures pertaining to control activities over the City’s computer system and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable and help support the achievement of the objectives of reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

City of Wapello

Schedule of Findings

Year ended June 30, 2017

Condition – The City does not have written policies or procedures for:

- Requiring password changes because software does not require the user to change log-ins/passwords, preventing the reuse of the same password and preventing employees from sharing passwords.
- Requiring lock out if the password is incorrectly entered three times in a row.
- Requiring timeout or logoff functions to be utilized when terminals are left unattended.

Additionally, the written disaster recovery plan does not include:

- 1) A list of computer equipment necessary for temporary operations.
- 2) An inventory of all hardware.

In addition, the disaster recovery plan has not been adequately tested by the City.

Cause – Management has not required written policies for the above computer and password controls or certain written disaster recovery plan controls, including testing of the disaster recovery plan.

Effect – Lack of written policies for the computer based system could result in a loss of data or compromised data, resulting in unreliable financial information. The failure to have a list of computer equipment needed for operation and a list of hardware in the disaster recovery plan could result in the City's inability to function in the event of a disaster or continue City business without interruption.

Recommendation – The City should develop written policies addressing the above items to improve the City's control over its computer system. A listing of computer equipment needed for operations and a listing of hardware should also be developed for the written disaster recovery plan and the disaster recovery plan should be tested periodically.

Response – The City will develop a policy which encompasses the above recommendations.

Conclusion – Response accepted.

(D) Wapello Fire and Rescue, Inc.

Criteria – 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.

City of Wapello

Schedule of Findings

Year ended June 30, 2017

Condition – For Wapello Fire and Rescue, Inc., (Fire and Rescue) one individual has control over one or more of the following areas:

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

Cause – The Fire and Rescue has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transaction and processes.

Recommendation – The Fire and Rescue should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – Fire and Rescue will review the existing operating procedures and implement additional procedures where possible.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Wapello

Schedule of Findings

Year ended June 30, 2017

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public works and culture and recreation 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 accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City will amend future budgets before disbursements exceed the budget.

Conclusion – Response accepted.

- (2) Questionable Disbursement – A disbursement 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. The disbursement is detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
American Cancer Society	Relay For Life donation	\$ 250

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

Recommendation – The City 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.

Response – The City Council will review future donations.

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, 2017

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Shawn Maine, Mayor, owner of Midwest Rod and Restoration and Midwest Collision and Repair	Vehicle repair and supplies	\$ 6,316
Brett Shafer, City Council Member, owner of Shafer Construction	Roofing City buildings, per bid	8,676
Larry Wagg, City Council Member, owner of Brown's Repair	Lawnmower repair and supplies	178

The transactions with City Council Member Wagg do not appear to represent a conflict of interest in accordance with Chapter 362.5(3)(k) of the Code of Iowa since the cumulative total transactions during the fiscal year were less than \$2,500.

The transactions with City Council Member Shafer for the roofing project do not appear to represent a conflict of interest in accordance with Chapter 362.5(3)(d) of the Code of Iowa since the contract made by the City was competitively bid.

The transactions with Mayor Maine for Midwest Rod and Restoration and Midwest Collision and Repair may represent conflicts of interest since the total transactions exceeded \$2,500 during the fiscal year and the transactions were not competitively bid.

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

Response – The City will consult legal counsel to determine if a conflict of interest exists with these disbursements.

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 ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City 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 Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.

City of Wapello

Schedule of Findings

Year ended June 30, 2017

- (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.

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 and accounting records and be reported to the City Council on a monthly basis.

Response – The City will look into adding all accounts to the City’s computerized accounting system.

Conclusion – Response accepted.

- (10) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires the City to report and remit obligations, including checks outstanding for more than two years, to the Office of Treasurer of State annually. The City did not remit these obligations as required.

Recommendation – The City should review outstanding checks and other items over two years old which should be remitted to the Office of Treasurer of State as required.

Response – The City will review the outstanding checks and remit items over two years old to the state.

Conclusion – Response accepted.

- (11) Annual Urban Renewal Report – The Annual Urban Renewal Report (AURR) was approved and certified to the Iowa Department of Management on or before December 1. The amount reported as outstanding debt was overstated by \$38,856.

Recommendation – The City should ensure amounts reported on the AURR agree with City records.

Response – The City will review to make sure the numbers on the report agree with City records.

Conclusion – Response accepted.

City of Wapello

Schedule of Findings

Year ended June 30, 2017

- (12) Senior Discount – Chapter 388.6 of the Code of Iowa states, “A city utility or combined utility system may not provide use or service at a discriminatory rate, except to the City or its agencies, as provided in Chapter 384.91.” Senior discounts were provided on garbage and recycling rates by the City Council.

Recommendation – The City is required to establish and apply consistent billing rates to certain types of customers, such as residential or commercial. The City Council should implement procedures which ensure nondiscriminatory garbage and recycling rates are used for all customers.

Response – The City Council will look into this.


Conclusion – Response accepted.

City of Wapello

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Jesse J. Probasco, CPA, Senior Auditor
Luke M. Bormann, CPA, Staff Auditor
Kristin R. Finke, Assistant Auditor
Michael G. DeAngelis, Intern Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State