



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

March 24, 2010

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

The City's receipts totaled \$2,078,905 for the year ended June 30, 2009, a 25 percent increase over 2008. The receipts included \$430,545 in property tax, \$214,121 from tax increment financing, \$95,377 from local option sales tax, \$681,838 from charges for service, \$462,581 from operating grants, contributions and restricted interest, \$7,894 from capital grants and contributions, \$5,234 from unrestricted interest on investments, \$8,365 from other general receipts and \$172,950 in note and loan proceeds.

The significant increase in receipts is primarily due to grants received for a new fire truck and note and loan proceeds for equipment purchases and water and sewer projects.

Disbursements for the year totaled \$2,196,977, a 19 percent increase over the prior year, and included \$515,199 for public safety, \$375,854 for public works and \$284,172 for culture and recreation. Disbursements for business type activities totaled \$870,006.

The significant increase in disbursements is due primarily to equipment purchases for the fire department and an increase in water and sewer projects.

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 <http://auditor.iowa.gov/reports/index.html>.

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CITY OF WAPELLO

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

JUNE 30, 2009

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City of Wapello

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ron Durbin	Mayor	Jan 2010
Larry Wagg	Mayor Pro tem	Jan 2012
Shawn Maine	Council Member	Jan 2010
Kermit L. Peterson	Council Member	Jan 2010
Josh R. Drayfahl	Council Member	Jan 2012
Kevin Hardin	Council Member	Jan 2012
Adam Parsons	Council Member	Jan 2012
Randy Tillmann	Council Member	Jan 2012
Celia Drayfahl	City Clerk	Indefinite
Karen Gittings	Deputy Clerk	(Resigned)
Cindy Bockes (Appointed)	Deputy Clerk	Indefinite
Jay Schweitzer and Tim Wink	Attorney	Indefinite

City of Wapello



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the discretely presented component unit and the remaining fund information of the City of Wapello, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Wapello's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

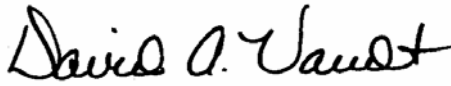
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, the discretely presented component unit and the remaining fund information of the City of Wapello as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

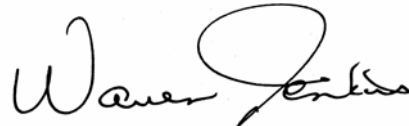
In accordance with Government Auditing Standards, we have also issued our report dated February 11, 2010 on our consideration of the City of Wapello's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Wapello's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 11, 2010

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, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 21.9%, or approximately \$260,000, from fiscal year 2008 to fiscal year 2009. Operating grants, contributions and restricted interest increased approximately \$185,000, tax increment financing increased approximately \$20,000 and loan proceeds increased approximately \$40,000.
- Disbursements of the City's governmental activities increased 26.6%, or approximately \$279,000, from fiscal year 2008 to fiscal year 2009. Public safety disbursements increased approximately \$234,000, public works disbursements increased approximately \$16,000 and culture and recreation disbursements increased approximately \$49,000.
- The City's total cash basis net assets decreased 18%, or approximately \$118,000, from June 30, 2008 to June 30, 2009. Of this amount, the net assets of the governmental activities decreased approximately \$358,000 and the net assets of the business type activities increased approximately \$240,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Tax Increment Financing, Local Option Sales Tax and Employee Benefits, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

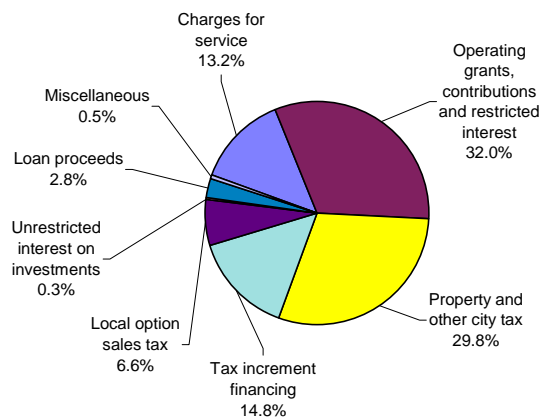
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

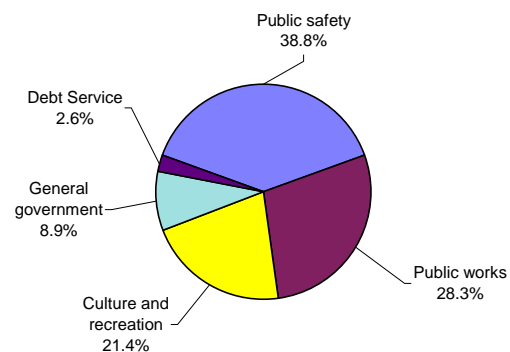
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased \$358,272 from a year ago, from \$676,843 to \$318,571. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service	\$ 191	177
Operating grants, contributions and restricted interest	463	278
General receipts:		
Property and other city tax	431	427
Tax increment financing	214	194
Local option sales tax	95	83
Unrestricted interest on investments	5	8
Loan proceeds	40	-
Miscellaneous	7	19
Total receipts	1,446	1,186
Disbursements:		
Public safety	515	281
Public works	376	360
Culture and recreation	284	235
General government	118	139
Debt service	34	33
Total disbursements	1,327	1,048
Change in cash basis net assets before transfers	119	138
Transfers, net	(477)	-
Change in cash basis net assets	(358)	138
Cash basis net assets beginning of year	677	539
Cash basis net assets end of year	\$ 319	677

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 21.9%, or approximately \$260,000. The total cost of all programs and services increased approximately \$279,000, or 26.6%. Operating grants, contributions and restricted interest increased approximately \$185,000, or 66.5%, from the prior year due to grants received for fire equipment and FEMA reimbursements for the June 2008 flood. Tax increment financing (TIF) receipts increased approximately \$20,000. The increase in TIF receipts is because the City certified more TIF debt for fiscal year 2009, primarily related to water and sewer projects. The significant increase in disbursements was due to increased public safety and public works disbursements in fiscal year 2009. During fiscal year 2009, the City purchased a new fire truck with the assistance of state and federal grants. The City also incurred additional payroll costs during fiscal year 2009 for cleanup and repair from the flooding of June 2008.

The City's property tax collections increased 1% during fiscal year 2009. The City did not levy for debt service, but did levy for employee benefits in fiscal year 2009.

The cost of all governmental activities this year was approximately \$1,327,000 compared to approximately \$1,048,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 14 and 15, the amount taxpayers ultimately financed for these activities was only \$673,390 because some of the cost was paid by those who directly benefited from the programs (\$190,900) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$462,581).

Changes in Cash Basis Net Assets of Business Type Activities		
(Expressed in Thousands)		
	Year ended	
	June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 180	183
Sewer	311	280
Capital grants, contributions and restricted interest	8	8
General receipts:		
General obligation note proceeds	133	-
Miscellaneous	2	2
Total receipts	<u>634</u>	<u>473</u>
Disbursements:		
Water	398	342
Sewer	472	450
Total disbursements	<u>870</u>	<u>792</u>
Change in cash basis net assets before transfers	(236)	(319)
Transfers, net	477	-
Change in cash basis net assets	<u>241</u>	<u>(319)</u>
Cash basis net assets beginning of year	<u>(21)</u>	<u>298</u>
Cash basis net assets end of year	<u>\$ 220</u>	<u>(21)</u>

Total business type activities receipts for the fiscal year were approximately \$634,000 compared to approximately \$473,000 last year, a 34% increase. The increase was due primarily to the receipt of \$133,350 of general obligation note proceeds in fiscal year 2009. The proceeds were used to finance the purchase of a tractor loader backhoe and water and sewer projects. Total disbursements for the fiscal year increased 10% due to equipment purchases and sewer and water projects completed in fiscal year 2009. Cash basis net assets increased approximately \$241,000 over the prior year, primarily due to the City repaying interfund loans due from the Special Revenue, Tax Increment Financing fund.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Wapello completed the year, its governmental funds reported a combined cash balance of \$318,571, a decrease of \$358,272 from last year's total of \$676,843. 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 \$34,334, or 9.6%, from the prior year. While receipts increased approximately 27.6%, other financing sources (transfers in and loan proceeds) decreased approximately \$35,000, or 47%.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$76,035 to \$(66,729). Receipts decreased approximately 3.2% while disbursements, primarily for street projects, increased approximately 5.9%.
- The Special Revenue, Tax Increment Financing Fund cash balance decreased \$262,602 to \$(5,855). The decrease was due to the City repaying \$476,723 of interfund loans due to the Water and Sewer Funds.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$47,689 to \$67,736. The increase was due primarily to the City collecting more local option sales tax receipts during fiscal year 2009.
- The Special Revenue, Employee Benefits Fund was established in fiscal year 2009 to account for the employee benefit levy and related disbursements.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$58,526 to \$(30,109). Receipts and transfers in increased 149% while disbursements increased only 16%. The fund received note proceeds of \$66,675 and \$208,250 of transfers in from the Special Revenue, Tax Increment Financing Fund as repayment of an interfund loan. The increase in disbursements is primarily due an increased project costs and equipment purchases.
- The Sewer Fund cash balance increased \$181,774 to \$249,717 due to the repayment of an interfund loan of \$268,473 from the Special Revenue, Tax Increment Financing Fund. Receipts increased 37%, primarily due to receipt of \$66,675 of general obligation note proceeds. Disbursements increased only 4.9%.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 7, 2009 to provide for additional disbursements in the public works function for street projects, the public safety function for the purchase of a new fire truck and the business type activities function for the purchase of a new backhoe and costs related to the Odessa Subdivision Project.

The City's receipts were \$303,694 more than budgeted. This was primarily due to the City receiving grants for the purchase of firefighting equipment and miscellaneous donations to the Library and Parks and Recreation departments.

Total disbursements were \$168,666 more than the amended budget. Disbursements for public safety, public works, culture and recreation, debt service and business type activities were higher than anticipated through June 30, 2009.

DEBT ADMINISTRATION

At June 30, 2009, the City had \$737,440 in bonds, notes and other long-term debt outstanding, compared to \$640,179 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2008	2007
General obligation notes	\$ 177,284	96,539
Water and sewer revenue bank loan	125,156	130,640
Revenue bond	395,000	413,000
Iowa Department of Public Safety loan	40,000	-
Total	\$ 737,440	640,179

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 \$218,200, including annually appropriated tax increment financing rebate agreements of \$916, is significantly below its constitutional debt limit of approximately \$3.7 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Wapello's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates and fees charged for various City activities. Circumstances that could significantly affect its financial health in the future are as follows:

The governmental funds activities have some changes in next year's budget. The swimming pool is in the second year of State mandated repairs. An evaluation of the swimming pool needs to be completed to determine the life expectancy of the swimming pool. The Fire Department has requested a new fire station. New accounting software will be installed during fiscal year 2010. The City's goal for Police Department staffing will be 3 full time officers and 2 part-time officers. One of the full time officers will be trained as a K-9 officer with K-9 West. This staffing will increase the expenses for the Police Department.

In the City's TIF area (Patrick's subdivision, Odessa subdivision and the Industrial Park), more infrastructure will be completed. The City's goal is to use the maximum TIF dollars available to complete as much infrastructure in these areas as possible before the deadline for TIF runs out.

The City will work toward completing the nine step process the State has established to allow the City to separate the storm and sanitary sewer. The nine step process deadline is fast approaching. More extensive work will be started in the 2010 fiscal year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Celia Drayfahl, City Clerk, 335 North Main Street, Wapello, Iowa 52653.

Basic Financial Statements

City of Wapello

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2009

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants and Contributions
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 515,199	14,329	196,931	-
Public works	375,854	118,822	198,658	-
Culture and recreation	284,172	22,527	66,992	-
General government	118,079	35,222	-	-
Debt service	33,567	-	-	-
Total governmental activities	1,326,871	190,900	462,581	-
Business type activities:				
Water	398,116	180,316	-	-
Sewer	471,890	310,622	-	7,894
Total business type activities	870,006	490,938	-	7,894
Total Primary Government	\$ 2,196,877	681,838	462,581	7,894
Component Unit:				
Wapello Fire and Rescue, Inc.	\$ 131,219	-	129,764	-
General Receipts:				
Property and other city tax levied for:				
General purposes				
Debt service				
Employee benefits				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
General obligation note and loan proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Local option sales tax				
Debt service				
Customer deposits				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets				
Primary Government			Component Unit	
Governmental Activities	Business Type Activities	Total	Wapello Fire and Rescue, Inc.	
(303,939)	-	(303,939)	-	
(58,374)	-	(58,374)	-	
(194,653)	-	(194,653)	-	
(82,857)	-	(82,857)	-	
(33,567)	-	(33,567)	-	
(673,390)	-	(673,390)	-	
-	(217,800)	(217,800)	-	
-	(153,374)	(153,374)	-	
-	(371,174)	(371,174)	-	
(673,390)	(371,174)	(1,044,564)	-	
-	-	-	(1,455)	
\$ 375,571	-	375,571	-	
577	-	577	-	
54,397	-	54,397	-	
214,121	-	214,121	-	
95,377	-	95,377	-	
5,079	155	5,234	-	
39,600	133,350	172,950	13,000	
7,119	1,246	8,365	-	
(476,723)	476,723	-	-	
315,118	611,474	926,592	13,000	
(358,272)	240,300	(117,972)	11,545	
676,843	(20,692)	656,151	117,010	
\$ 318,571	219,608	538,179	128,555	
67,736	-	67,736	-	
-	11,503	11,503	-	
-	45,234	45,234	-	
250,835	162,871	413,706	128,555	
\$ 318,571	219,608	538,179	128,555	

City of Wapello

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

As of and for the year ended June 30, 2009

	General	Road Use Tax	Special Tax Increment Financing
Receipts:			
Property tax	\$ 375,571	-	-
Tax increment financing	-	-	214,121
Other city tax	-	-	-
Licenses and permits	27,991	-	-
Use of money and property	13,720	-	-
Intergovernmental	229,606	176,228	-
Charges for service	134,384	-	-
Miscellaneous	82,959	791	-
Total receipts	<u>864,231</u>	<u>177,019</u>	<u>214,121</u>
Disbursements:			
Operating:			
Public safety	439,333	-	-
Public works	122,800	253,054	-
Culture and recreation	265,732	-	-
General government	110,300	-	-
Debt service	-	-	-
Total disbursements	<u>938,165</u>	<u>253,054</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(73,934)</u>	<u>(76,035)</u>	<u>214,121</u>
Other financing sources (uses):			
Loan proceeds (less \$400 origination fee)	39,600	-	-
Operating transfers out	-	-	(476,723)
Total other financing sources (uses)	<u>39,600</u>	<u>-</u>	<u>(476,723)</u>
Net change in cash balances	(34,334)	(76,035)	(262,602)
Cash balances beginning of year	358,759	9,306	256,747
Cash balances end of year	<u>\$ 324,425</u>	<u>(66,729)</u>	<u>(5,855)</u>
Cash Basis Fund Balances			
Unreserved:			
General fund	\$ 324,425	-	-
Special revenue funds	-	(66,729)	(5,855)
Debt service fund	-	-	-
Total cash basis fund balances	<u>\$ 324,425</u>	<u>(66,729)</u>	<u>(5,855)</u>

See notes to financial statements.

<u>Revenue</u>			
<u>Local</u>		<u>Nonmajor</u>	
Option Sales	Employee	Debt	Total
Tax	Benefits	Service	
-	54,397	577	430,545
-	-	-	214,121
95,377	-	-	95,377
-	-	-	27,991
-	-	-	13,720
-	-	-	405,834
-	-	-	134,384
-	-	-	83,750
95,377	54,397	577	1,405,722
47,688	28,178	-	515,199
-	-	-	375,854
-	18,440	-	284,172
-	7,779	-	118,079
-	-	33,567	33,567
47,688	54,397	33,567	1,326,871
47,689	-	(32,990)	78,851
-	-	-	39,600
-	-	-	(476,723)
-	-	-	(437,123)
47,689	-	(32,990)	(358,272)
20,047	-	31,984	676,843
67,736	-	(1,006)	318,571
-	-	-	324,425
67,736	-	-	(4,848)
-	-	(1,006)	(1,006)
67,736	-	(1,006)	318,571

City of Wapello

City of Wapello

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

As of and for the year ended June 30, 2009

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 169,841	310,622	480,463
Miscellaneous	11,721	-	11,721
Total operating receipts	181,562	310,622	492,184
Operating disbursements:			
Business type activities	161,598	143,442	305,040
Excess of operating receipts over operating disbursements	19,964	167,180	187,144
Non-operating receipts (disbursements):			
Use of money and property	155	-	155
Capital projects and equipment	(229,857)	(263,797)	(493,654)
General obligation note proceeds	66,675	66,675	133,350
Debt service	(6,661)	(64,651)	(71,312)
Total non-operating receipts (disbursements)	(169,688)	(261,773)	(431,461)
Deficiency of receipts under disbursements	(149,724)	(94,593)	(244,317)
Other receipts:			
Capital contributions:			
Special assessments	-	7,894	7,894
Operating transfers in	208,250	268,473	476,723
Net change in cash balances	58,526	181,774	240,300
Cash balances beginning of year	(88,635)	67,943	(20,692)
Cash balances end of year	\$ (30,109)	249,717	219,608
Cash Basis Fund Balances			
Reserved for:			
Debt service	\$ -	11,503	11,503
Customer deposits	45,234	-	45,234
Unreserved	(75,343)	238,214	162,871
Total cash basis fund balances	\$ (30,109)	249,717	219,608

See notes to financial statements.

City of Wapello

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

Discretely Presented Component Unit

Wapello Fire and Rescue, Inc. has been incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504A of the Code of Iowa, for the purpose of aiding in the extinguishing of fires and performing such other duties as set forth by the Wapello Volunteer Fire Department. The Department receives donations for the benefit of the Wapello Volunteer Fire Department. These donations are to be used to purchase items which are not included in the City's budget. In accordance with criteria set forth by the Governmental Accounting Standards Board, Wapello Fire and Rescue, Inc. meets the definition of a component unit which should be discretely presented.

Jointly Governed Organizations

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

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City’s nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

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

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

The Employee Benefits Fund is used to account for the tax levy and disbursements for employee benefits.

The City reports the following major proprietary funds:

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

The Sewer Fund accounts for the operation and maintenance of the City's 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 assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, debt service and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2009, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
U.S. Treasury Notes	\$ 5,000	5,025	10/31/2011
U.S. Treasury Notes	25,000	25,125	11/30/2010
	<u>\$ 30,000</u>	<u>30,150</u>	

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

(3) Long-Term Debt

Primary Government:

Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Notes		Sewer Revenue Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 43,742	4,641	18,000	11,850	61,742	16,491
2011	47,418	2,949	19,000	11,310	66,418	14,259
2012	35,471	808	19,000	10,740	54,471	11,548
2013 - 2017	-	-	105,000	44,730	105,000	44,730
2018 - 2022	-	-	122,000	27,990	122,000	27,990
2023 - 2026	-	-	112,000	8,490	112,000	8,490
Total	<u>\$ 126,631</u>	<u>8,398</u>	<u>395,000</u>	<u>115,110</u>	<u>521,631</u>	<u>123,508</u>

The Code of Iowa requires principal and interest on general obligation notes be paid from the Debt Service Fund. However, during the year, \$26,568 of general obligation note principal and interest was paid from the Sewer Fund.

General Obligation Notes

On October 29, 2008, the City issued a general obligation corporate purpose note for \$66,712 to finance the purchase of public works equipment. The note is to be repaid in 36 monthly installments of \$1,983, beginning December 1, 2008, including interest of 4.45% per annum for five years, then converting to 1% above the five year treasury rate thereafter.

The City plans to repay the note from the Enterprise, Water and Enterprise, Sewer Funds. During the year ended June 30, 2009, the City paid \$14,120 of principal on the loan, leaving a balance of \$52,592.

On October 29, 2008, the City also issued a general obligation corporate purpose note for a maximum of \$214,000 to finance water and sewer improvements. The City will draw on the note as disbursements are made. At June 30, 2009, the City had drawn \$66,638. The note is to be repaid in 120 monthly installments of \$2,213, beginning December 1, 2008, including interest of 4.45% per annum for five years, then converting to 1% above the five year treasury rate thereafter.

The City plans to repay the note from tax increment financing receipts. During the year ended June 30, 2009, the City paid \$15,985 of principal on the loan, leaving a balance of \$50,653. The note is not reflected in the above totals since a formal repayment schedule has not yet been adopted for the note.

Sewer Revenue Bond

On June 2, 2005, the City entered into a state revolving loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of a \$447,000 sewer revenue bond with interest at 3.0% per annum. The bond was issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$447,000 of sewer revenue bonds issued in June 2005. Proceeds from the bonds provided financing for the construction of improvements and extensions to the City's sewer system. The bonds are payable solely from sewer customer net receipts and are payable through 2026. Annual principal and interest payments on the bonds are expected to require less than 20 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$510,110. For the current year, principal and interest paid and total customer net receipts were \$30,390 and \$167,180, respectively.

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

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

Revenue Bank Loan

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

Pursuant to the loan agreement, the loan is authorized under Chapter 384.24A(5) of the Code of Iowa and is payable from the City's Enterprise, Water and Sewer Funds. During the year ended June 30, 2009, the City paid \$5,484 of principal on the loan, leaving a balance at June 30, 2009 of \$125,156.

The City has pledged future water and sewer customer receipts, net of specified operating disbursements, to repay the \$190,000 bank loan. The loan is payable solely from water and sewer customer net receipts and is payable through 2018. Annual principal and interest payments on the loan are expected to require less than 34 percent and 4 percent of net receipts in the Water and Sewer Funds, respectively. For the current year, \$6,661 and \$6,661 of principal and interest were paid from the Water and Sewer Funds, respectively. Total customer net receipts were \$19,964 and \$167,180 in the Water and Sewer Funds, respectively.

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 new fire truck. The loan is to be repaid in 20 semi-annual installments of \$2,000 beginning on November 1, 2009.

Anticipatory Loan

On March 5, 2009, the City entered into a Sewer Revenue Loan and Disbursement agreement with the Iowa Finance Authority for the issuance of \$1.2 million in sewer revenue bonds to provide funds to pay costs related to the construction and extension of the sewer utility. Pursuant to Chapters 76.13 and 384.24A of the Code of Iowa, the City issued a \$250,000 project note on March 25, 2009 in anticipation of the receipt of proceeds from the sewer revenue bonds. The note bears interest at 0% per annum and matures on March 25, 2012. As of June 30, 2009, the City has not drawn any funds on the project note.

Discretely Presented Component Unit:

Bank Loan

On April 15, 2009, Wapello Fire and Rescue, Inc. obtained a bank loan for \$13,000 to help finance the purchase of a fire truck. The loan bears interest at 5.10% per annum and is payable in full on August 28, 2009.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$20,450, \$20,189 and \$18,065, respectively, equal to the required contributions for each year.

(5) Compensated Absences

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

Employees eligible for retirement will receive one-half of their accumulated sick leave balance. However, the employees must have earned the maximum days allowable before sick leave benefits under this plan are effective. No employees were eligible for sick leave benefits at June 30, 2009.

The City's approximate liability for earned vacation hours payable to employees at June 30, 2009, primarily relating to the General Fund, was \$18,000. This liability has been computed based on rates of pay in effect at June 30, 2009.

(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, 2009 is as follows:

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

The City has entered into four tax increment financing rebate agreements. The City agreed to assist in urban renewal projects by rebating incremental tax paid by the participating companies with respect to the improvements set forth in the urban renewal plan. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from participating companies will be rebated for a period of five years beginning with the tax year in which the property tax on the completed value of the improvements are first paid. The total amount that will be rebated in any fiscal year for the tax increment financing rebate agreements will not exceed 100% for the first year, 80% for the second year, 60% for the third year, 40% for the fourth year and 20% for the fifth year. The actual amount rebated during the year ended June 30, 2009 was \$916. The Code of Iowa requires tax increment financing rebates be paid from the Special Revenue, Tax Increment Financing Fund. However, during the year, \$916 of tax increment financing rebates were paid from the General Fund.

The City has also entered into one development agreement in accordance with Chapter 15A of the Code of Iowa. The agreement was for the construction a new Dollar General store located in the City. The City agreed to reimburse certain property tax paid by the developer for five years. The tax reimbursement will be 100% in the first year, 80% for the second year, 60% for the third year, 40% for the fourth year and 20% for the fifth year. The third year reimbursement of \$2,121 was paid from the General Fund during the ended June 30, 2009.

(9) Interfund Loans

The detail of interfund loans at June 30, 2009 is as follows:

Due From	Due To	Amount
Special Revenue:	Enterprise:	
Tax Increment Financing	Water	\$ 165,821
	Sewer	98,880
Total		<u>\$ 264,701</u>

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

(10) Deficit Balances

At June 30, 2009, the City had deficit fund balances as follows:

Fund	Unreserved Fund Deficit Balances June 30, 2009
Special Revenue:	
Road Use Tax	\$ (66,729)
Tax Increment Financing	(5,855)
Debt Service	(1,006)
Enterprise:	
Water	(30,109)

The Special Revenue, Road Use Tax Fund deficit is the result of an increase in road projects during the fiscal year. The deficit will be eliminated through collection of future road use tax receipts.

The Special Revenue, Tax Increment Financing Fund deficit is the result of the repayment of interfund loans made prior to July 1, 2008 to the Enterprise, Water and Enterprise, Sewer Funds. The deficit will be eliminated through collection of future tax increment financing receipts.

The Debt Service Fund deficit is the result of payment of principal and interest on general obligation notes which the City intends to reimburse from the Special Revenue, Tax Increment Financing Fund and Enterprise, Water and Enterprise, Sewer Funds.

The Enterprise, Water Fund deficit is the result of interfund loans made to the Special Revenue, Tax Increment Financing Fund which have not been repaid.

(11) Related Party Transactions

On January 15, 2009, the Council approved a development agreement with Midwest Rod & Restoration, owned by Council Member Shawn Maine, to construct a building within the City's urban renewal area to be used as an automotive restoration facility. We were unable to determine the propriety of this agreement in accordance with Chapter 403.16 of the Code of Iowa.

(12) Subsequent Events

On July 16, 2009, the City approved a contract totaling \$204,993 for the 2009 Industrial Park and Storm Sewer Improvements project. The project will be funded from proceeds of \$1.2 million of general obligation notes issued on October 1, 2009.

On October 1, 2009, the City approved the issuance of \$151,000 of general obligation notes to pay for emergency generators needed to maintain water and sewer supplies. The notes will be repaid with water and sewer revenues.

On October 1, 2009, the City approved the issuance of \$1.2 million of general obligation notes to pay the costs of completing infrastructure work in the City's urban renewal area. The notes will be repaid with future tax increment financing receipts.

On January 21, 2010, the City approved plans for a Storm Sewer Segregation project at a cost of \$1,391,024. The City approved borrowing up to \$900,000 from the State Revolving Fund to partially fund the project. The remaining costs will be funded through a \$500,000 community development block grant.

Required Supplementary Information

City of Wapello

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

Required Supplementary Information

Year ended June 30, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 430,545	-	430,545
Tax increment financing	214,121	-	214,121
Other city tax	95,377	-	95,377
Licenses and permits	27,991	-	27,991
Use of money and property	13,720	155	13,875
Intergovernmental	405,834	-	405,834
Charges for service	134,384	480,463	614,847
Special assessments	-	7,894	7,894
Miscellaneous	83,750	11,721	95,471
Total receipts	<u>1,405,722</u>	<u>500,233</u>	<u>1,905,955</u>
Disbursements:			
Public safety	515,199	-	515,199
Public works	375,854	-	375,854
Culture and recreation	284,172	-	284,172
Community and economic development	-	-	-
General government	118,079	-	118,079
Debt service	33,567	-	33,567
Business type activities	-	870,006	870,006
Total disbursements	<u>1,326,871</u>	<u>870,006</u>	<u>2,196,877</u>
Excess (deficiency) of receipts over (under) disbursements	78,851	(369,773)	(290,922)
Other financing sources (uses), net	(437,123)	610,073	172,950
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(358,272)	240,300	(117,972)
Balances beginning of year	676,843	(20,692)	656,151
Balances end of year	<u>\$ 318,571</u>	<u>219,608</u>	<u>538,179</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
415,119	415,119	15,426
181,000	181,000	33,121
103,472	103,472	(8,095)
4,395	4,395	23,596
8,770	8,770	5,105
194,214	194,214	211,620
687,791	687,791	(72,944)
7,500	7,500	394
-	-	95,471
<u>1,602,261</u>	<u>1,602,261</u>	<u>303,694</u>
275,862	360,152	(155,047)
305,043	375,043	(811)
242,490	267,490	(16,682)
181,000	181,000	181,000
132,620	132,620	14,541
-	-	(33,567)
497,906	711,906	(158,100)
<u>1,634,921</u>	<u>2,028,211</u>	<u>(168,666)</u>
(32,660)	(425,950)	135,028
<u>32,660</u>	<u>425,950</u>	<u>(253,000)</u>
-	-	(117,972)
<u>926,910</u>	<u>926,910</u>	<u>(270,759)</u>
<u>926,910</u>	<u>926,910</u>	<u>(388,731)</u>

City of Wapello

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the discretely presented component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$393,290. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, debt service and business type activities functions.

Other Supplementary Information

City of Wapello
 Schedule of Indebtedness
 Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Primary government:			
General obligation notes:			
Water and sewer construction	May 9, 2002	5.00%	\$ 227,665
Public works equipment	Oct 29, 2008	4.45	66,712
Water and sewer improvements	Oct 29, 2008	4.45	66,638
Total			
Revenue bond:			
Sewer	Jun 2, 2005	3.00%	\$ 447,000
Bank loan:			
Water and sewer revenue	Sep 17, 1998	6.00%	\$ 190,000
Iowa Department of Public Safety loan:			
Fire truck	Feb 25, 2009	0%	\$ 40,000
Discretely presented component unit:			
Bank loan:			
Fire truck	Apr 15, 2009	5.10%	\$ 13,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
96,539	-	22,500	74,039	4,068
-	66,712	14,120	52,592	1,743
-	66,638	15,985	50,653	1,719
\$ 96,539	133,350	52,605	177,284	7,530
413,000	-	18,000	395,000	12,390
130,640	-	5,484	125,156	7,838
-	40,000	-	40,000	-
-	13,000	-	13,000	-

City of Wapello

City of Wapello
Bond and Note Maturities
June 30, 2009

Year Ending June 30,	General Obligation Notes				Total	Revenue Bond	
	Water and Sewer Construction		Public Works Equipment			Sewer	
	Issued May 9, 2002		Issued Oct. 29, 2008			Interest	Amount
	Interest Rates	Amount	Interest Rates	Amount		Rates	Amount
2010	5.00%	\$ 23,713	4.45%	\$ 20,029	43,742	3.00%	\$ 18,000
2011	5.00	24,614		22,804	47,418	3.00	19,000
2012	5.00	25,712		9,759	35,471	3.00	19,000
2013		-		-	-	3.00	20,000
2014		-		-	-	3.00	20,000
2015		-		-	-	3.00	21,000
2016		-		-	-	3.00	22,000
2017		-		-	-	3.00	22,000
2018		-		-	-	3.00	23,000
2019		-		-	-	3.00	24,000
2020		-		-	-	3.00	24,000
2021		-		-	-	3.00	25,000
2022		-		-	-	3.00	26,000
2023		-		-	-	3.00	27,000
2024		-		-	-	3.00	28,000
2025		-		-	-	3.00	28,000
2026		-		-	-	3.00	29,000
Total		<u>\$ 74,039</u>		<u>\$ 52,592</u>	<u>\$ 126,631</u>		<u>\$ 395,000</u>

See accompanying independent auditor's report.

City of Wapello

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

For the Last Seven Years

	2009	2008	2007	2006
Receipts:				
Property and other city tax	\$ 430,545	427,218	399,536	383,917
Tax increment financing	214,121	193,892	46,601	103,795
Local option sales tax	95,377	83,314	-	-
Licenses and permits	27,991	20,999	21,486	19,373
Use of money and property	13,720	19,544	28,290	10,014
Intergovernmental	405,834	208,746	198,387	324,316
Charges for service	134,384	140,549	135,330	134,159
Miscellaneous	83,750	91,940	122,621	106,014
Total	\$ 1,405,722	1,186,202	952,251	1,081,588
Disbursements:				
Operating:				
Public safety	\$ 515,199	281,161	163,328	330,627
Public works	375,854	359,504	276,829	301,510
Culture and recreation	284,172	234,978	313,630	194,706
General government	118,079	139,740	117,799	133,330
Debt service	33,567	33,189	16,595	201,861
Total	\$ 1,326,871	1,048,572	888,181	1,162,034

See accompanying independent auditor's report.

2005	2004	2003
379,516	388,312	392,878
97,319	60,240	43,476
-	-	-
20,114	19,606	5,224
13,208	11,283	16,535
197,004	365,128	247,483
133,396	127,059	124,214
143,952	98,564	85,464
984,509	1,070,192	915,274
195,402	166,751	159,505
350,321	305,250	273,179
194,587	203,080	195,381
130,106	127,951	109,695
61,172	61,781	62,372
931,588	864,813	800,132

City of Wapello



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the discretely presented component unit and the remaining fund information of the City of Wapello, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 11, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Wapello's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Wapello's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Wapello's internal control over financial reporting.

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

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

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

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

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the City of Wapello's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

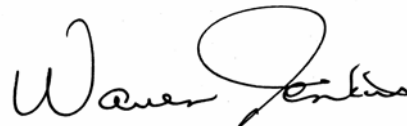
The City of Wapello's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Wapello's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Wapello and other parties to whom the City of Wapello may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Wapello during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 11, 2010

City of Wapello
Schedule of Findings
Year ended June 30, 2009

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. For the City, one individual has control over one or more of the following areas:
- (1) Accounting system – performing all general accounting functions and having custody of assets.
 - (2) Cash – preparing bank reconciliations, initiating cash receipt and disbursement transactions and handling and recording cash.
 - (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
 - (4) Long term debt – recording and reconciling.
 - (5) Receipts – collecting, depositing, journalizing, posting and reconciling.
 - (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
 - (7) Disbursements – preparing, recording and reconciling.
 - (8) Payroll – preparing and distributing.
 - (9) Computer usage – performing all general accounting functions, preparation of journal entries and controlling data input and output.
 - (10) Financial reporting – preparing, reconciling and distributing.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its operating procedures to obtain the maximum internal control possible

Response – The City will review its operating procedures.

Conclusion – Response accepted.

- (B) Information Systems – The following weaknesses in the City’s computer based systems were noted:

The City does not have written policies for:

- Requiring password changes because software does not require the user to change log-ins/passwords and/or preventing the reuse of the same password.

City of Wapello

Schedule of Findings

Year ended June 30, 2009

- Requiring lock out if the password is incorrectly entered three times in a row.
- Requiring passwords to uniquely identify users of system and input.
- Requiring timeout or logoff functions to be utilized when terminals are left unattended.
- Requiring computer journal entries to be reviewed and approved by an independent individual.

Additionally, the written disaster recovery plan does not include:

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

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer based systems.

Response – The City will strive to implement a written policy addressing the above issues.

Conclusion – Response accepted.

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

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

Response – The City will be able to accomplish this after installing the new software.

Conclusion – Response accepted.

- (D) Utility Reconciliation – Utility billings, collections, and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council should review the reconciliation and monitor delinquencies.

Response – The City will strive to complete a monthly utility billing reconciliation.

Conclusion – Response accepted.

City of Wapello

Schedule of Findings

Year ended June 30, 2009

(E) Financial Reporting – During the audit, we identified the following material reporting errors:

- A \$43,628 journal entry incorrectly posted, resulting in the understatement of receipts.
- \$194,819 of state and federal grants incorrectly posted to “miscellaneous” rather than “intergovernmental” receipts.
- \$42,248 of liability insurance property tax incorrectly posted to “miscellaneous” rather than “property tax” receipts.
- \$54,397 of property tax levied for employee benefits incorrectly posted to the General Fund rather than the Special Revenue, Employee Benefits Fund.
- A \$50,000 check written on June 19, 2009 and held for costs related to a water project, materially overstating disbursements.

Adjustments were subsequently made by the City to properly reflect these amounts in the financial statements.

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

Response – The City will review this finding and strive for a solution.

Conclusion – Response accepted.

(F) Investments – The City does not maintain an investment record.

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

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

Conclusion – Response accepted.

City of Wapello

Schedule of Findings

Year ended June 30, 2009

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

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

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

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

Response – The City will request the Wapello Fire and Rescue to review their operating procedures.

Conclusion – Response accepted.

(H) Pay Rate Approval – Pay increases for City employees for fiscal year 2009 were not formally approved by the City Council.

Recommendation – Pay increases for City employees should be approved by the City Council. The approval should be documented in the minutes record.

Response – The City will address this recommendation.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Wapello

Schedule of Findings

Year ended June 30, 2009

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted in the public safety, public works, culture and recreation, debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City will strive to amend the budget in a timely manner.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Shawn Maine, Council Member, owner of Midwest Rod Restoration	Squad car repair	\$ 460
	Urban renewal development agreement	*
Adam Parsons, Council Member, employed at Hicklin & Mathews	Legal services	1,775
Larry Wagg, Council Member, owner of Browns Repair	Lawnmower repairs	1,107
Llewann Bryant, Librarian, husband employed at Bryant Construction	Window replacement	52
Celia Drayfahl, City Clerk, husband employed at 3-D Fabrications	Weigh station repair	2,380

* Total amount of this agreement is based on rebate of future property tax and, accordingly, the amount is unknown at June 30, 2009.

City of Wapello

Schedule of Findings

Year ended June 30, 2009

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

The transactions with the City Clerk's husband and Council Member Parsons may represent a conflict of interest since total transactions exceeded \$1,500 during the fiscal year.

See item (14) below for discussion of the potential conflict of interest related to the urban renewal development agreement with Council Member Maine.

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

Response – The City will consult legal counsel.

Conclusion – Response accepted.

(5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

(6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Certain minutes of the Council meetings were not signed in accordance with Chapter 380.7 of the Code of Iowa.

Recommendation – Minutes of the Council meetings should be signed as required.

Response – The City will strive to have all minutes signed.

Conclusion – Response accepted.

(7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

(8) Revenue Bond – No instances of noncompliance with the sewer revenue bond resolution were noted.

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

In addition, the Police Department K-9, Police Equipment, Briggs Center, Chief Wapello Days and various parks and recreation accounts were not included in the City's computer system and/or in the monthly financial reports.

City of Wapello

Schedule of Findings

Year ended June 30, 2009

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

Response – The City will strive to complete this recommendation.

Conclusion – Response accepted.

- (10) Public Hearings – During the fiscal year, the City issued two general obligation corporate purpose notes, entered into a developer rebate agreement and entered into a loan through the Iowa Department of Public Safety (IDPS). The City did not publish notice of public hearing on the issuance of the two general obligation notes prior to the hearing, as required by Chapters 384.25 and 384.26 of the Code of Iowa. The City did not publish notice or hold a public hearing prior to entering into the developer rebate agreement and the IDPS loan, as required by Chapters 403.9 and 384.24A(4) of the Code of Iowa, respectively.

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

Response – The City will consult legal counsel.

Conclusion – Response accepted.

- (11) Payment of General Obligation Note – Principal and interest on the City’s 2002 general obligation note was paid from the Enterprise, Sewer Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation notes, and received from sources other than property tax, must be deposited in the debt service fund.”

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

Response – The City will transfer from sewer fund to debt fund as required.

Conclusion – Response accepted.

- (12) Urban Renewal Tax Increment (TIF) Rebate Agreements – During the year ended June 30, 2009, \$916 of urban renewal tax increment rebate payments were made from the General Fund. In accordance with Chapter 403.19(2) of the Code of Iowa, TIF debt payments should be made from the Special Revenue, Tax Increment Financing Fund.

In addition, pursuant to the development agreement related to the fiscal year 2009 TIF rebate payments, the payments to the developer are “subject to annual approval and appropriation by the City Council”. The Council did not appropriate the rebate prior to payment.

City of Wapello

Schedule of Findings

Year ended June 30, 2009

Recommendation – The City should transfer \$916 from the Special Revenue, Tax increment Financing Fund to the General Fund to correct the error. Future tax increment financing rebate payments should be made from the Special Revenue, Tax Increment Financing Fund as required by Chapter 403.19(2) of the Code of Iowa. Tax rebate payments should be appropriated prior to making the payment as required.

Response – The City will transfer the funds to the correct account.

Conclusion – Response accepted.

- (13) Tax Increment Financing Debt Certification – In December 2008, the City certified tax increment financing (TIF) indebtedness to the County Auditor for invoices totaling \$165,821 and \$98,880 from the Enterprise, Water and Enterprise, Sewer Funds, respectively, for projects within the City’s urban renewal area. While the City intended these payments to represent loans from the Enterprise, Water and Enterprise, Sewer Funds to the Special Revenue, Tax Increment Financing Fund for the related TIF projects, the loans were never formally approved by the Council and, accordingly, do not represent TIF debt which may be certified to the County Auditor.

Recommendation – The City should establish procedures to ensure the TIF debt certification complies with Chapter 403 of the Code of Iowa and includes only allowable debt approved by the Council prior to certification.

Response – The City will evaluate this recommendation.

Conclusion – Response accepted.

- (14) Urban Renewal Development Agreement – On January 15, 2009, the Council approved a development agreement with Midwest Rod & Restoration, owned by Council Member Shawn Maine, to construct a building within the City’s urban renewal area to be used as an automotive restoration facility.

Chapter 403.16 of the Code of Iowa states, in part:

“No public official or employee of a municipality, or board or commission thereof, and no commissioner or employee of an urban renewal agency, which has been vested by a municipality with urban renewal project powers under section 403.14, shall voluntarily acquire any personal interest, as hereinafter defined, whether direct or indirect, in any urban renewal project, or in any property included or planned to be included in any urban renewal project of such municipality, or in any contract or proposed contract in connection with such urban renewal project.”

Council Member Maine abstained from voting on the resolution approving the agreement. However, according to an Iowa Supreme Court Case, *Wilson v. Iowa City*, 165 N.W. 2d 813 (Iowa 1969), the action of abstaining from a vote as a result of conflict of interest as it relates to Urban Renewal Law (Chapter 403.16 of the Code of Iowa) does not render the contract valid. The Iowa Supreme Court ruled, in part, “We hold a vote by a member of the council on any of the challenged

City of Wapello

Schedule of Findings

Year ended June 30, 2009

resolutions, if in violation of section 403.16, is void and that the result reached by the council in such a matter is also void, whether such vote determined the issue before the council or not (emphasis added).”

Recommendation – We were unable to determine the propriety of the development agreement with Council Member Maine. The City should consult legal counsel to determine the disposition of this matter.

Response – The City will consult legal counsel.

Conclusion – Response accepted.

- (15) Financial Condition – The City had deficit fund balances of \$66,729, \$5,855, \$1,006 and \$30,109 in the Special Revenue, Road Use Tax and Special Revenue, Tax Increment Financing Funds, the Debt Service Fund and the Enterprise, Water Fund, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial position.

Response – The City will investigate alternatives to eliminate deficits.

Conclusion – Response accepted.

City of Wapello

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Michael J. Hackett, Senior Auditor
Marta M. Sobieszkoda, Staff Auditor
Tiffany M. Ainger, Staff Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State