



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

November 27, 2012

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$2,520,164 for the year ended June 30, 2012, an 18.7% decrease from 2011. The receipts included \$496,541 in property tax, \$284,508 from tax increment financing, \$112,723 from local option sales tax, \$752,550 from charges for service, \$391,646 from operating grants, contributions and restricted interest, \$12,379 from capital grants and contributions, \$767 from unrestricted interest on investments, \$4,616 from other general receipts and \$464,434 of bond/note proceeds.

Disbursements for the year totaled \$2,528,240, a 28.2% decrease from the prior year, and included \$364,085 for public works, \$336,804 for debt service and \$296,015 for public safety. Also, disbursements for business type activities totaled \$1,109,784.

The significant decrease in receipts is due primarily to a decrease in the amount of property tax levied and collected for debt service and a decrease in bond proceeds received for water and sewer projects. The significant decrease in disbursements is due primarily to the completion of a sewer project where a significant portion of the project's disbursements were incurred in the prior fiscal year.

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/1220-0562-B00F.pdf>.

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

JUNE 30, 2012

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City of Wapello

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--|---|--------------------------|
| (Before January 2012) | | |
| Ron Durbin | Mayor | Jan 2012 |
| Larry Wagg | Mayor Pro tem | Jan 2012 |
| Kevin Hardin | Council Member | Jan 2012 |
| Adam Parsons | Council Member | Jan 2012 |
| Randy Tillmann | Council Member | Jan 2012 |
| Josh R. Drayfahl | Council Member | Jan 2014 |
| Shawn Maine | Council Member | Jan 2014 |
| Kermit L. Peterson | Council Member | Jan 2014 |
| Celia Drayfahl | City Clerk | Indefinite |
| Cindy Bockes | Deputy Clerk | Indefinite |
| Jay Schweitzer and Tim Wink | Attorneys | Indefinite |
| (After January 2012) | | |
| Ron Durbin | Mayor | Jan 2016 |
| Larry Wagg | Mayor Pro tem | Jan 2016 |
| Josh R. Drayfahl | Council Member | Jan 2014 |
| Shawn Maine | Council Member | Jan 2014 |
| Kermit L. Peterson | Council Member | Jan 2014 |
| Kenny Marlette | Council Member | Jan 2016 |
| Troy Mitchell | Council Member | Jan 2016 |
| Andy Truitt | Council Member | Jan 2016 |
| Celia Drayfahl | City Clerk | (Terminated August 2011) |
| Mike Delzell (Appointed November 2011) | Acting City Clerk/ Public Works Director | Indefinite |
| Cindy Bockes | Deputy Clerk | Indefinite |
| Jay Schweitzer and Tim Wink | Attorneys | Indefinite |

City of Wapello



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David A. Vaudt, CPA
Auditor of State

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

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 aggregate remaining fund information of the City of Wapello, Iowa, as of and for the year ended June 30, 2012, 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.

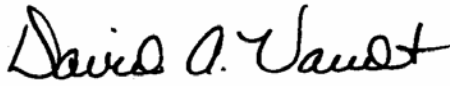
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of the City of Wapello as of June 30, 2012, 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 October 25, 2012 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.


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 nine years ended June 30, 2011 (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. 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our 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 financial statements or to the 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.

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. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 30 through 32 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 25, 2012

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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 2.5%, or approximately \$35,000, from fiscal year 2011 to fiscal year 2012. Operating grants, contributions and restricted interest decreased approximately \$34,000 and local option sales tax decreased approximately \$43,000 while tax increment financing increased approximately \$30,000.
- Disbursements of the City's governmental activities increased 1.7%, or approximately \$24,000, from fiscal year 2011 to fiscal year 2012. Public safety disbursements decreased approximately \$34,000, culture and recreation disbursements decreased approximately \$84,000, general government disbursements increased approximately \$43,000 and debt service disbursements increased approximately \$99,000.
- The City's total cash basis net assets decreased 1.6%, or approximately \$8,000, from June 30, 2011 to June 30, 2012. Of this amount, the net assets of the governmental activities decreased approximately \$221,000 and the net assets of the business type activities increased approximately \$213,000.

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 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.

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 Statement of Activities and Net Assets reports information which helps answer this question.

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

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

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

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Tax Increment Financing and Local Option Sales Tax, 3) the Debt Service Fund and 4) 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.

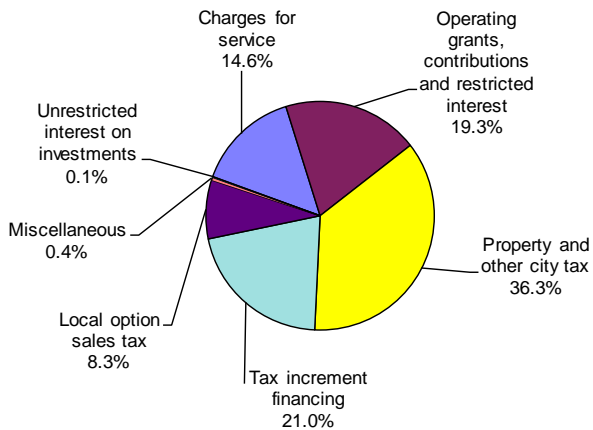
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

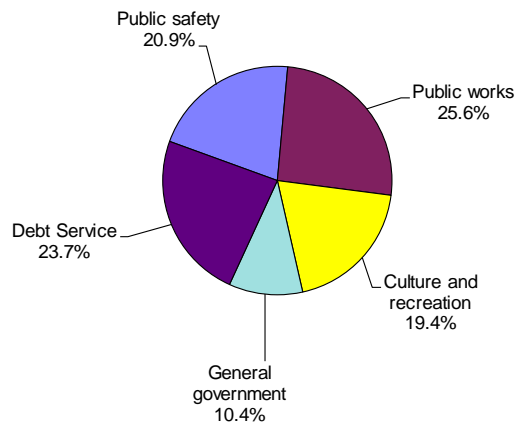
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased \$221,260 from a year ago, from \$588,939 to \$367,679. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

| Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands) | | |
|---|---------------------|-------|
| | Year ended June 30, | |
| | 2012 | 2011 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service | \$ 198 | 189 |
| Operating grants, contributions and restricted interest | 263 | 297 |
| General receipts: | | |
| Property and other city tax | 496 | 470 |
| Tax increment financing | 285 | 255 |
| Local option sales tax | 113 | 156 |
| Unrestricted interest on investments | 1 | 2 |
| Miscellaneous | 5 | 27 |
| Total receipts | 1,361 | 1,396 |
| Disbursements: | | |
| Public safety | 296 | 330 |
| Public works | 364 | 364 |
| Culture and recreation | 275 | 359 |
| General government | 147 | 104 |
| Debt service | 337 | 238 |
| Total disbursements | 1,419 | 1,395 |
| Change in cash basis net assets before transfers | (58) | 1 |
| Transfers, net | (163) | 24 |
| Change in cash basis net assets | (221) | 25 |
| Cash basis net assets beginning of year | 589 | 564 |
| Cash basis net assets end of year | \$ 368 | 589 |

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased 2.5%, or approximately \$35,000. The total cost of all programs and services increased approximately \$24,000, or 1.7%. Operating grants, contributions and restricted interest decreased approximately \$34,000, or 11.4%, from the prior year due to the City receiving fewer donations for the Keck Memorial Library. Tax increment financing (TIF) receipts increased approximately \$30,000, or 11.8%. The increase in disbursements was primarily due to an increase in regularly scheduled debt payments, offset by decreased disbursements in the culture and recreation function for library renovation costs primarily incurred in the prior fiscal year.

The City's property tax collections increased 5.5% during fiscal year 2012. The City began levying an emergency levy in fiscal year 2012, but other property tax rates remained relatively consistent.

The cost of all governmental activities this year was approximately \$1,419,000, compared to approximately \$1,395,000 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 \$957,290 because some of the cost was paid by those who directly benefited from the programs (\$198,520) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$262,646).

| Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands) | | |
|--|---------------------|-------|
| | Year Ended June 30, | |
| | 2012 | 2011 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service: | | |
| Water | \$ 182 | 180 |
| Sewer | 372 | 351 |
| Operating grants, contributions and restricted interest | 129 | - |
| Capital grants, contributions and restricted interest | 12 | 459 |
| General receipts: | | |
| Bond/note proceeds | 464 | 715 |
| Total receipts | 1,159 | 1,705 |
| Disbursements: | | |
| Water | 196 | 629 |
| Sewer | 913 | 1,500 |
| Total disbursements | 1,109 | 2,129 |
| Change in cash basis net assets before transfers | 50 | (424) |
| Transfers, net | 163 | (24) |
| Change in cash basis net assets | 213 | (448) |
| Cash basis net assets beginning of year | (84) | 364 |
| Cash basis net assets end of year | \$ 129 | (84) |

Total business type activities receipts for fiscal year 2012 were approximately \$1,159,000 compared to approximately \$1,705,000 last year due to a decrease in bond proceeds received during fiscal year 2012. Total disbursements for fiscal year 2012 decreased approximately \$1,020,000, primarily due to the completion of water and sewer improvement projects undertaken in previous years. Cash basis net assets increased approximately \$213,000 over the prior year as water and sewer project costs were offset by the receipt of bond proceeds and approximately \$185,000 from the Special Revenue, Tax Increment Financing Fund to repay an interfund loan to the Enterprise, Water Fund.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Wapello completed the year, its governmental funds reported a combined cash balance of \$367,679, a decrease of \$221,260 from last year's total of \$588,939. 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 \$50,511, or 21.8%, from the prior year. Receipts decreased 1.2% while disbursements increased 10.3% over the prior year, primarily due to increased professional service disbursements and equipment purchases.
- The Special Revenue, Road Use Tax Fund cash balance remained constant, decreasing only \$41.
- The Special Revenue, Tax Increment Financing Fund cash balance decreased \$229,543 to a zero balance at June 30, 2012. The decrease was due to the City repaying an interfund loan to the Enterprise, Water Fund and an increase in scheduled debt payments.
- The Special Revenue, Local Option Sales Tax (LOST) Fund cash balance increased \$56,361, from \$183,295 to \$239,656. The increase was primarily due to the City continuing to spend less in LOST dollars than collected for the past six years.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$265,529 to \$36,857. The increase in the cash balance is primarily due to the repayment of an interfund loan from the Special Revenue, Tax Increment Financing Fund.
- The Enterprise, Sewer Fund cash balance decreased from \$144,341 to \$91,996. The decrease is primarily due to fewer Community Development Block Grant receipts and bond proceeds from the State Revolving Fund in fiscal year 2012 disbursed for the sewer construction project completed in August 2011.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 24, 2012, primarily to provide for additional disbursements in the business type activities function for water and sewer projects.

The City's receipts were \$387,050 less than budgeted. This was primarily due to the City budgeting bond proceeds from the State Revolving Fund as intergovernmental receipts rather than other financing sources.

Total disbursements were \$18,887 more than the amended budget. Disbursements in the debt service function exceeded the amount budgeted by \$336,804 while disbursements in the community and economic development function came under budget by \$274,123. This is due to the City incorrectly budgeting principal and interest payments on certain debt.

Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the culture and recreation, debt service and business type activities functions.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$2,652,635 in bonds, notes and other long-term debt outstanding, compared to \$2,600,750 last year, as shown below.

| | Outstanding Debt at Year-End | |
|---|------------------------------|-----------|
| | June 30, | |
| | 2012 | 2011 |
| General obligation notes | \$ 1,008,185 | 1,345,825 |
| Revenue bonds | 1,459,000 | 1,116,451 |
| Sewer revenue project anticipation note | 61,166 | - |
| Water and sewer revenue bank loan | 96,284 | 106,474 |
| Iowa Department of Public Safety loan | 28,000 | 32,000 |
| Total | \$ 2,652,635 | 2,600,750 |

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 \$1,037,043, including annually appropriated tax increment financing rebate agreements of \$858, is significantly below its constitutional debt limit of approximately \$4.09 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 2013 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 the storm and sanitary sewer by September 1, 2020. In addition, the City has a compliance schedule to update its wastewater treatment facility by August 1, 2015.

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

On October 18, 2012, the City approved a contract to install the last street, along with water and sewer, in the City's TIF area (Patrick's Subdivision). Several new homes have been built in Patrick's Subdivision. Creation of this last street will allow for more homes to be constructed, thereby benefitting the City.

On October 18, 2012, the City approved a contract to install sanitary sewers in the City's TIF area (Industrial Park) to service residential and commercial lots not previously serviced by sanitary sewers.

With the City's pool being 25 years old, the City Pool Board feels it's time to replace the pool and has asked the City Council to consider putting a bond referendum out for a vote.

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

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, Acting 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, 2012

| | | Program Receipts | | |
|---|---------------|------------------|--|--|
| | | Charges for | Operating Grants, Contributions and Restricted Interest | Capital Grants and Contributions |
| | Disbursements | Service | | |
| Functions/Programs: | | | | |
| Primary Government: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 296,015 | 14,211 | 32,632 | - |
| Public works | 364,085 | 137,559 | 197,042 | - |
| Culture and recreation | 274,294 | 24,786 | 32,972 | - |
| General government | 147,258 | 21,964 | - | - |
| Debt service | 336,804 | - | - | - |
| Total governmental activities | 1,418,456 | 198,520 | 262,646 | - |
| Business type activities: | | | | |
| Water | 196,136 | 181,842 | - | - |
| Sewer | 913,648 | 372,188 | 129,000 | 12,379 |
| Total business type activities | 1,109,784 | 554,030 | 129,000 | 12,379 |
| Total Primary Government | \$ 2,528,240 | 752,550 | 391,646 | 12,379 |
| Component Unit: | | | | |
| Wapello Fire and Rescue, Inc. | \$ 37,954 | - | 51,614 | - |
| 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 | | | | |
| Bond/note proceeds, net of \$3,280 initiation fee | | | | |
| 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: | | | | |
| Nonexpendable: | | | | |
| Library bequest | | | | |
| Expendable: | | | | |
| Parks and recreation | | | | |
| Police and fire purposes | | | | |
| Library purposes | | | | |
| Local option sales tax purposes | | | | |
| Debt service | | | | |
| Customer deposits | | | | |
| Unrestricted | | | | |
| Total cash basis net assets | | | | |

See notes to financial statements.

| Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | | |
|--|-----------------------------|-------------|----------------------------------|
| Primary Government | | | Component Unit |
| Governmental Activities | Business Type Activities | Total | Wapello Fire and Rescue, Inc. |
| (249,172) | - | (249,172) | |
| (29,484) | - | (29,484) | |
| (216,536) | - | (216,536) | |
| (125,294) | - | (125,294) | |
| (336,804) | - | (336,804) | |
| (957,290) | - | (957,290) | |
| - | (14,294) | (14,294) | |
| - | (400,081) | (400,081) | |
| - | (414,375) | (414,375) | |
| (957,290) | (414,375) | (1,371,665) | |
| | | | 13,660 |
| \$ 493,840 | - | 493,840 | - |
| 2,701 | | 2,701 | |
| 284,508 | - | 284,508 | - |
| 112,723 | - | 112,723 | - |
| 689 | 78 | 767 | - |
| - | 464,434 | 464,434 | - |
| 4,616 | - | 4,616 | - |
| (163,047) | 163,047 | - | - |
| 736,030 | 627,559 | 1,363,589 | - |
| (221,260) | 213,184 | (8,076) | 13,660 |
| 588,939 | (84,331) | 504,608 | 115,014 |
| \$ 367,679 | 128,853 | 496,532 | 128,674 |
| \$ 30,000 | - | 30,000 | - |
| 23,894 | - | 23,894 | - |
| 11,707 | - | 11,707 | 128,674 |
| 28,973 | - | 28,973 | - |
| 239,656 | - | 239,656 | - |
| 2,652 | 9,147 | 11,799 | - |
| - | 59,023 | 59,023 | - |
| 30,797 | 60,683 | 91,480 | - |
| \$ 367,679 | 128,853 | 496,532 | 128,674 |

City of Wapello

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

As of and for the year ended June 30, 2012

| | General | Road Use Tax |
|--|------------|--------------------|
| Receipts: | | |
| Property tax | \$ 415,456 | - |
| Tax increment financing | - | - |
| Other city tax | - | - |
| Licenses and permits | 22,769 | - |
| Use of money and property | 4,343 | - |
| Intergovernmental | 43,998 | 197,042 |
| Charges for service | 155,271 | - |
| Miscellaneous | 42,795 | - |
| Total receipts | 684,632 | 197,042 |
| Disbursements: | | |
| Operating: | | |
| Public safety | 239,653 | - |
| Public works | 158,318 | 205,767 |
| Culture and recreation | 274,294 | - |
| General government | 147,258 | - |
| Debt service | - | - |
| Total disbursements | 819,523 | 205,767 |
| Excess (deficiency) of receipts over (under) disbursements | (134,891) | (8,725) |
| Other financing sources (uses): | | |
| Operating transfers in | 84,380 | 13,691 |
| Operating transfers out | - | (5,007) |
| Total other financing sources (uses) | 84,380 | 8,684 |
| Net change in cash balances | (50,511) | (41) |
| Cash balances beginning of year | 231,644 | (85,721) |
| Cash balances end of year | \$ 181,133 | (85,762) |
| Cash Basis Fund Balances | | |
| Nonspendable: | | |
| Library bequest | \$ - | - |
| Restricted for: | | |
| Parks and recreation | 23,894 | - |
| Police and fire purposes | 11,707 | - |
| Library purposes | 28,973 | - |
| Local option sales tax purposes | - | - |
| Debt service | - | - |
| Unassigned | 116,559 | (85,762) |
| Total cash basis fund balances | \$ 181,133 | (85,762) |

See notes to financial statements.

| Special Revenue | | | |
|-----------------|--------------|----------|-----------|
| Tax | Local | | |
| Increment | Option Sales | | |
| Financing | Tax | Nonmajor | Total |
| - | - | 81,085 | 496,541 |
| 284,508 | - | - | 284,508 |
| - | 112,723 | - | 112,723 |
| - | - | - | 22,769 |
| - | - | 253 | 4,596 |
| - | - | - | 241,040 |
| - | - | - | 155,271 |
| - | - | - | 42,795 |
| 284,508 | 112,723 | 81,338 | 1,360,243 |
| - | 56,362 | - | 296,015 |
| - | - | - | 364,085 |
| - | - | - | 274,294 |
| - | - | - | 147,258 |
| 328,872 | - | 7,932 | 336,804 |
| 328,872 | 56,362 | 7,932 | 1,418,456 |
| (44,364) | 56,361 | 73,406 | (58,213) |
| - | - | 7,883 | 105,954 |
| (185,179) | - | (78,815) | (269,001) |
| (185,179) | - | (70,932) | (163,047) |
| (229,543) | 56,361 | 2,474 | (221,260) |
| 229,543 | 183,295 | 30,178 | 588,939 |
| - | 239,656 | 32,652 | 367,679 |
| - | - | 30,000 | 30,000 |
| - | - | - | 23,894 |
| - | - | - | 11,707 |
| - | - | - | 28,973 |
| - | 239,656 | - | 239,656 |
| - | - | 2,652 | 2,652 |
| - | - | - | 30,797 |
| - | 239,656 | 32,652 | 367,679 |

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, 2012

| | Enterprise | | |
|---|------------|-----------|-----------|
| | Water | Sewer | Total |
| Operating receipts: | | | |
| Charges for service | \$ 166,848 | 370,425 | 537,273 |
| Miscellaneous | 14,994 | 1,763 | 16,757 |
| Total operating receipts | 181,842 | 372,188 | 554,030 |
| Operating disbursements: | | | |
| Business type activities | 175,582 | 145,969 | 321,551 |
| Excess of operating receipts over operating disbursements | 6,260 | 226,219 | 232,479 |
| Non-operating receipts (disbursements): | | | |
| Interest on investments | 78 | - | 78 |
| Bond/note proceeds, net of \$3,280 initiation fee | - | 464,434 | 464,434 |
| Community development block grant | - | 5,000 | 5,000 |
| IJOBS | - | 129,000 | 129,000 |
| Capital outlay | (958) | (607,568) | (608,526) |
| Debt service | (19,596) | (160,111) | (179,707) |
| Net non-operating receipts (disbursements) | (20,476) | (169,245) | (189,721) |
| Excess (deficiency) of receipts over (under) disbursements | (14,216) | 56,974 | 42,758 |
| Capital contributions and transfers | | | |
| Special assessments | - | 7,379 | 7,379 |
| Operating transfers in | 290,040 | - | 290,040 |
| Operating transfers out | (10,295) | (116,698) | (126,993) |
| Net capital contributions and transfers | 279,745 | (109,319) | 170,426 |
| Net change in cash balances | 265,529 | (52,345) | 213,184 |
| Cash balances beginning of year | (228,672) | 144,341 | (84,331) |
| Cash balances end of year | \$ 36,857 | 91,996 | 128,853 |
| Cash Basis Fund Balances | | | |
| Restricted for: | | | |
| Debt service | \$ - | 9,147 | 9,147 |
| Customer deposits | 59,023 | - | 59,023 |
| Unrestricted | (22,166) | 82,849 | 60,683 |
| Total cash basis fund balances | \$ 36,857 | 91,996 | 128,853 |

See notes to financial statements.

City of Wapello

Notes to Financial Statements

June 30, 2012

(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 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 the following categories/components:

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

Expendable 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 categories. 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 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 sales and services tax receipts and related disbursements.

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 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.

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 imposed by law through constitutional provisions or enabling legislation.

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. Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the culture and recreation, debt service and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 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, 2012, the City had the following investments:

| Type | Carrying Amount | Fair Value | Maturity |
|---------------------|-----------------|------------|--------------|
| U.S. Treasury Notes | \$ 25,000 | 25,125 | Nov 30, 2012 |

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

(3) Long-Term Debt

Bonds and Notes Payable

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

| Year Ending June 30, | General Obligation Notes | | Sewer Revenue Bonds | | Total | |
|----------------------|--------------------------|----------|---------------------|----------|-----------|----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2013 | \$ 198,757 | 39,969 | 66,000 | 43,770 | 264,757 | 83,739 |
| 2014 | 183,287 | 32,277 | 68,000 | 41,790 | 251,287 | 74,067 |
| 2015 | 187,019 | 25,061 | 70,000 | 39,750 | 257,019 | 64,811 |
| 2016 | 160,677 | 17,574 | 72,000 | 37,650 | 232,677 | 55,224 |
| 2017 | 167,108 | 11,143 | 75,000 | 35,490 | 242,108 | 46,633 |
| 2018-2022 | 111,337 | 4,456 | 410,000 | 142,320 | 521,337 | 146,776 |
| 2023-2027 | - | - | 448,000 | 76,860 | 448,000 | 76,860 |
| 2028-2031 | - | - | 250,000 | 16,350 | 250,000 | 16,350 |
| Total | \$ 1,008,185 | 130,480 | 1,459,000 | 433,980 | 2,467,185 | 564,460 |

The Code of Iowa requires principal and interest on general obligation notes be paid from the Debt Service Fund. However, \$11,307, \$44,037 and \$328,014 of general obligation note principal and interest were paid from the Enterprise, Water, Enterprise, Sewer and Special Revenue, Tax Increment Financing Funds, respectively, during the year.

General Obligation Notes

On October 29, 2008, the City issued a general obligation corporate purpose note for \$214,000 to finance water and sewer improvements. The note is to be repaid in 120 monthly installments of \$2,213, including interest at 4.45% per annum beginning December 1, 2008, 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, 2012, the City paid principal of \$129,878 and interest of \$6,736 on the note, leaving a principal balance of \$29,155.

On October 28, 2009, the City issued a general obligation corporate purpose note for \$151,000 to finance the purchase of emergency generators. The note is to be repaid in five annual payments of \$33,920, including interest at 4.00% per annum, beginning October 22, 2010.

The City plans to repay the note from the Enterprise, Water and Sewer Funds. During the year ended June 30, 2012, the City paid principal of \$28,973 and interest of \$4,947 on the note, leaving a principal balance of \$94,030.

On December 4, 2009, the City issued a general obligation corporate purpose note for \$1,200,000 to finance water and sewer improvements. The note is to be repaid in eight annual payments of \$178,251, including interest at 4.00% per annum, beginning October 22, 2010.

The City plans to repay the note from tax increment financing receipts. During the year ended June 30, 2012, the City paid principal of \$150,000 and interest of \$41,400 on the note, leaving a principal balance of \$885,000.

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 a \$447,000 sewer revenue bond with interest at 3.00% per annum. The bond was issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa. During the year ended June 30, 2012, the City paid principal of \$19,000 and interest of \$10,740 on the bond. The balance on the bond at June 30, 2011 was \$339,000.

On April 7, 2010, the City entered into a loan agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources (DNR) for the issuance of a sewer revenue bond of up to \$900,000 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 bond was 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 will draw down funds to reimburse the City for costs as they are incurred. At June 30, 2012, the City had drawn \$900,000 of the authorized amount. During the year ended June 30, 2012, the City paid principal of \$34,000 and interest of \$25,380 on the bond. The balance on the bond at June 30, 2012 was \$833,000.

On July 1, 2011, the City entered into a loan agreement with the Iowa Finance Authority for the issuance of a sewer revenue bond of up to \$328,000 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 bond was 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 will draw down funds to reimburse the City for costs as they are incurred. At

June 30, 2012, the City had drawn down \$298,000 of the authorized amount. An initiation fee of \$3,280 (1.00% of the authorized borrowing for the sewer revenue bond) was charged by the Iowa Finance Authority and withheld from the first proceeds of the sewer revenue bond drawn by the City during the year ended June 30, 2012. During the year ended June 30, 2012, the City paid principal of \$11,000 and interest of \$3,857 on the bond. The balance of the bond at June 30, 2012 was \$287,000.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,675,000 of sewer revenue bonds issued in June 2005, April 2010 and July 1, 2011. The bonds are payable solely from sewer customer net receipts and are payable through 2031. Annual principal and interest payments on the bonds are expected to require less than 50% of net receipts. The total principal and interest remaining to be paid on the notes is \$1,892,980. For the current year, principal and interest paid and total customer net receipts were \$103,977 and \$226,219, 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 revenues at a level not less than 110% of the amount of principal and interest on the bond falling due in the same year.

Sewer Revenue Project Anticipation Note

On April 20, 2012, the City issued a sewer revenue loan and disbursement agreement interim project anticipation note to the Iowa Finance Authority for up to \$125,000, interest free, to be used for the purpose of paying costs in connection with planning, designing and constructing improvements and extensions to the municipal wastewater treatment system. The note was issued pursuant to the provisions of Chapters 76.13 and 384.24A of the Code of Iowa in anticipation of the receipt of, and is payable from, the proceeds of an authorized loan agreement and a corresponding issuance of sewer revenue bonds in an amount sufficient to repay the note. At June 30, 2012, the City had drawn \$61,166 against the project anticipation note.

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 6.00% 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, 2012, the City paid principal of \$10,190 and interest of \$6,388 on the loan, leaving a principal balance at June 30, 2012 of \$96,284.

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 more than 100%

of net receipts of the Enterprise, Water Fund and 4% of net receipts of the Enterprise, Sewer Fund. For the current year, \$8,289 of principal and interest were paid from each of the Enterprise, Water and Sewer Funds. Total customer net receipts were \$6,260 and \$226,219 in the Enterprise, 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. The principal balance on the loan at June 30, 2012 is \$28,000.

(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 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012, 2011 and 2010 were \$27,959, \$26,916 and \$26,039, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 7 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Allied National. Retirees under age 65 would pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The monthly premiums vary for single and family plans. The premium is calculated on an individual basis off the individual's health history. The same process would apply to monthly premiums of retirees. For the year ended June 30, 2012, the City contributed \$81,039 to the plan. The plan members do not contribute to the plan.

(6) 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, 2012.

The City's approximate liability for earned vacation hours payable to employees at June 30, 2012, primarily relating to the General Fund, was approximately \$19,600. This liability has been computed based on rates of pay in effect at June 30, 2012.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

| Transfer to | Transfer from | Amount |
|------------------|-------------------------|-------------------|
| General | Special Revenue: | |
| | Road Use Tax | \$ 5,007 |
| | Employee Benefits | 64,693 |
| | Enterprise: | |
| | Water | 6,353 |
| | Sewer | 7,896 |
| | Permanent: | |
| | Library Bequest | 431 |
| | | <u>84,380</u> |
| Special Revenue: | Special Revenue: | |
| Road Use Tax | Employee Benefits | <u>13,691</u> |
| Debt Service | Enterprise: | |
| | Water | 3,942 |
| | Sewer | 3,941 |
| | | <u>7,883</u> |
| Enterprise: | | |
| Water | Special Revenue: | |
| | Tax Increment Financing | 185,179 |
| | Enterprise: | |
| | Sewer | 104,861 |
| | | <u>290,040</u> |
| Total | | <u>\$ 395,994</u> |

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

(8) 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.

(9) Rebate Agreements

The City has entered into two tax increment financing rebate agreements to assist in urban renewal projects by rebating incremental property tax paid by the companies 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 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 to be rebated in any fiscal year under the tax increment financing rebate agreement 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, 2012 was \$1,716.

(10) Interfund Loans

The detail of interfund loans at June 30, 2012 is as follows:

| Due From | Due To | Amount |
|-------------------------|-------------|------------|
| Special Revenue: | Enterprise: | |
| Tax Increment Financing | Sewer | \$ 228,539 |

The loans represent amounts paid from the Enterprise, Sewer Fund 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. No reimbursements to the Enterprise, Sewer Fund occurred during the year ended June 30, 2012.

(11) Deficit Balance

The Special Revenue, Road Use Tax Fund had a deficit fund balance of \$85,762 at June 30, 2012. The deficit is the result of an increase in road projects during the current and prior fiscal year and will be eliminated through future road use tax collections.

(12) Subsequent Events

On September 20, 2012, the City approved the issuance of up to \$2,400,000 of general obligation bonds to pay the costs of constructing street and water systems, sanitary sewer and storm water improvements, acquiring and installing water meters and emergency warning sirens and refunding a bank loan and certain general obligation notes dated September 17, 1998, October 29, 2008, October 28, 2009 and December 4, 2009. The City intends to repay the general obligation bonds with a combination of an ad valorem tax levied on all taxable property in the City and tax increment financing receipts.

On October 18, 2012, the City entered into contracts totaling \$613,134 for improvements in Patrick's Subdivision and Industrial Park, both in the City's urban renewal area. The improvements will be funded from proceeds of the general obligation bond issue approved on September 20, 2012.

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, 2012

| | Governmental Funds Actual | Proprietary Funds Actual | Total |
|---|---------------------------------|--------------------------------|-----------|
| Receipts: | | | |
| Property tax | \$ 496,541 | - | 496,541 |
| Tax increment financing | 284,508 | - | 284,508 |
| Other city tax | 112,723 | - | 112,723 |
| Licenses and permits | 22,769 | - | 22,769 |
| Use of money and property | 4,596 | 78 | 4,674 |
| Intergovernmental | 241,040 | 134,000 | 375,040 |
| Charges for service | 155,271 | 537,273 | 692,544 |
| Special assessments | - | 7,379 | 7,379 |
| Miscellaneous | 42,795 | 16,757 | 59,552 |
| Total receipts | 1,360,243 | 695,487 | 2,055,730 |
| Disbursements: | | | |
| Public safety | 296,015 | - | 296,015 |
| Public works | 364,085 | - | 364,085 |
| Culture and recreation | 274,294 | - | 274,294 |
| Community and economic development | - | - | - |
| General government | 147,258 | - | 147,258 |
| Debt service | 336,804 | - | 336,804 |
| Business type activities | - | 1,109,784 | 1,109,784 |
| Total disbursements | 1,418,456 | 1,109,784 | 2,528,240 |
| Deficiency of receipts under disbursements | (58,213) | (414,297) | (472,510) |
| Other financing sources (uses), net | (163,047) | 627,481 | 464,434 |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | (221,260) | 213,184 | (8,076) |
| Balances beginning of year | 588,939 | (84,331) | 504,608 |
| Balances end of year | \$ 367,679 | 128,853 | 496,532 |

See accompanying independent auditor's report.

| Budgeted Amounts | | Final to |
|------------------|-----------|-------------------|
| Original | Final | Total Variance |
| 482,900 | 482,900 | 13,641 |
| 274,123 | 274,123 | 10,385 |
| 115,189 | 131,189 | (18,466) |
| 21,325 | 21,325 | 1,444 |
| 4,475 | 4,475 | 199 |
| 238,885 | 791,682 | (416,642) |
| 704,336 | 704,336 | (11,792) |
| 8,000 | 8,000 | (621) |
| 24,750 | 24,750 | 34,802 |
| 1,873,983 | 2,442,780 | (387,050) |
| 304,747 | 348,451 | 52,436 |
| 353,748 | 375,372 | 11,287 |
| 263,017 | 263,017 | (11,277) |
| 274,123 | 274,123 | 274,123 |
| 124,482 | 154,412 | 7,154 |
| - | - | (336,804) |
| 553,866 | 1,093,978 | (15,806) |
| 1,873,983 | 2,509,353 | (18,887) |
| - | (66,573) | (405,937) |
| - | - | 464,434 |
| - | (66,573) | 58,497 |
| 1,640,000 | 335,115 | 169,493 |
| 1,640,000 | 268,542 | 227,990 |

City of Wapello

Notes to Other Information – Budgetary Reporting

June 30, 2012

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, the Permanent 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 \$635,370. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the culture and recreation, debt service and business type activities functions.

City of Wapello

Supplementary Information

City of Wapello

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

Year ended June 30, 2012

| | Special Revenue | Debt | Permanent Library | Total |
|---|----------------------|---------|----------------------|----------|
| | Employee Benefits | Service | Bequest | |
| Receipts: | | | | |
| Property tax | \$ 78,384 | 2,701 | - | 81,085 |
| Use of money and property | - | - | 253 | 253 |
| Total receipts | 78,384 | 2,701 | 253 | 81,338 |
| Disbursements: | | | | |
| Debt service | - | 7,932 | - | 7,932 |
| Excess (deficiency) of receipts over (under) disbursements | 78,384 | (5,231) | 253 | 73,406 |
| Other financing sources (uses): | | | | |
| Operating transfers in | - | 7,883 | - | 7,883 |
| Operating transfers out | (78,384) | - | (431) | (78,815) |
| Total other financing sources (uses) | (78,384) | 7,883 | (431) | (70,932) |
| Net change in cash balances | - | 2,652 | (178) | 2,474 |
| Cash balances beginning of year | - | - | 30,178 | 30,178 |
| Cash balances end of year | \$ - | 2,652 | 30,000 | 32,652 |
| Cash Basis Fund Balances | | | | |
| Nonspendable - library bequest | \$ - | - | 30,000 | 30,000 |
| Restricted | - | 2,652 | - | 2,652 |
| Total cash basis fund balances | \$ - | 2,652 | 30,000 | 32,652 |

See accompanying independent auditor's report.

City of Wapello
Schedule of Indebtedness
Year ended June 30, 2012

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|---|---------------|----------------|--------------------------|
| General obligation notes: | | | |
| Water and sewer improvements | 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 | 214,000 |
| Emergency generators | Oct 28, 2009 | 4.00 | 151,000 |
| Water and sewer improvements | Dec 4, 2009 | 4.00 | 1,200,000 |
| 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 | 328,000 |
| Total | | | |
| Sewer revenue project anticipation note | Apr 20, 2012 | 0.00% | \$ 125,000 |
| Bank loan: | | | |
| Water and sewer revenue | Sep 17, 1998 | 6.00% | \$ 190,000 |
| Iowa Department of Public Safety loan: | | | |
| Fire truck | Feb 25, 2009 | 0.00% | \$ 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 |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|
| 20,982 | - | 20,982 | - | 441 |
| 7,807 | - | 7,807 | - | 76 |
| 159,033 | - | 129,878 | 29,155 | 6,736 |
| 123,003 | - | 28,973 | 94,030 | 4,947 |
| 1,035,000 | - | 150,000 | 885,000 | 41,400 |
| <u>\$ 1,345,825</u> | <u>-</u> | <u>337,640</u> | <u>1,008,185</u> | <u>53,600</u> |
| 358,000 | - | 19,000 | 339,000 | 10,740 |
| 758,452 | 108,548 | 34,000 | 833,000 | 25,380 |
| - | 298,000 | 11,000 | 287,000 | 3,857 |
| <u>\$ 1,116,452</u> | <u>406,548</u> | <u>64,000</u> | <u>1,459,000</u> | <u>39,977</u> |
| <u>-</u> | <u>61,166</u> | <u>-</u> | <u>61,166</u> | <u>-</u> |
| 106,474 | - | 10,190 | 96,284 | 6,388 |
| 32,000 | - | 4,000 | 28,000 | - |

City of Wapello

City of Wapello
Bond and Note Maturities
June 30, 2012

| General Obligation Notes | | | | | | | | |
|----------------------------|---------------------------------|-----------|-------------------------|-----------|---------------------------------|------------|--|-----------|
| Year Ending June 30, | Water and Sewer Improvements | | Emergency Generators | | Water and Sewer Improvements | | | Total |
| | Issued October 29, 2008 | | Issued October 28, 2009 | | Issued December 4, 2009 | | | |
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | | |
| 2013 | 4.45% | \$ 25,779 | 4.00% | \$ 30,145 | 4.00% | \$ 142,833 | | 198,757 |
| 2014 | 4.45 | 3,376 | 4.00 | 31,361 | 4.00 | 148,550 | | 183,287 |
| 2015 | | - | 4.00 | 32,524 | 4.00 | 154,495 | | 187,019 |
| 2016 | | - | | - | 4.00 | 160,677 | | 160,677 |
| 2017 | | - | | - | 4.00 | 167,108 | | 167,108 |
| 2018 | | - | | - | 4.00 | 111,337 | | 111,337 |
| Total | | \$ 29,155 | | \$ 94,030 | | \$ 885,000 | | 1,008,185 |

| Year Ending June 30, | Revenue Bonds | | | | | | | |
|----------------------------|---------------------|------------|----------------------|------------|---------------------|------------|-----------|-------|
| | Sewer | | Sewer | | Sewer | | | Total |
| | Issued June 2, 2005 | | Issued April 7, 2010 | | Issued July 1, 2011 | | | |
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | | |
| 2013 | 3.00% | \$ 20,000 | 3.00% | \$ 35,000 | 3.00% | \$ 11,000 | 66,000 | |
| 2014 | 3.00 | 20,000 | 3.00 | 36,000 | 3.00 | 12,000 | 68,000 | |
| 2015 | 3.00 | 21,000 | 3.00 | 37,000 | 3.00 | 12,000 | 70,000 | |
| 2016 | 3.00 | 22,000 | 3.00 | 38,000 | 3.00 | 12,000 | 72,000 | |
| 2017 | 3.00 | 22,000 | 3.00 | 40,000 | 3.00 | 13,000 | 75,000 | |
| 2018 | 3.00 | 23,000 | 3.00 | 41,000 | 3.00 | 13,000 | 77,000 | |
| 2019 | 3.00 | 24,000 | 3.00 | 42,000 | 3.00 | 14,000 | 80,000 | |
| 2020 | 3.00 | 24,000 | 3.00 | 44,000 | 3.00 | 14,000 | 82,000 | |
| 2021 | 3.00 | 25,000 | 3.00 | 45,000 | 3.00 | 14,000 | 84,000 | |
| 2022 | 3.00 | 26,000 | 3.00 | 46,000 | 3.00 | 15,000 | 87,000 | |
| 2023 | 3.00 | 27,000 | 3.00 | 48,000 | 3.00 | 15,000 | 90,000 | |
| 2024 | 3.00 | 28,000 | 3.00 | 49,000 | 3.00 | 16,000 | 93,000 | |
| 2025 | 3.00 | 28,000 | 3.00 | 51,000 | 3.00 | 16,000 | 95,000 | |
| 2026 | 3.00 | 29,000 | 3.00 | 53,000 | 3.00 | 17,000 | 99,000 | |
| 2027 | | - | 3.00 | 54,000 | 3.00 | 17,000 | 71,000 | |
| 2028 | | - | 3.00 | 56,000 | 3.00 | 18,000 | 74,000 | |
| 2029 | | - | 3.00 | 58,000 | 3.00 | 19,000 | 77,000 | |
| 2030 | | - | 3.00 | 60,000 | 3.00 | 19,000 | 79,000 | |
| 2031 | | - | | - | 3.00 | 20,000 | 20,000 | |
| Total | | \$ 339,000 | | \$ 833,000 | | \$ 287,000 | 1,459,000 | |

See accompanying independent auditor's report.

City of Wapello

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

For the Last Ten Years

| | 2012 | 2011 | 2010 | 2009 |
|-----------------------------|---------------------|------------------|------------------|------------------|
| Receipts: | | | | |
| Property and other city tax | \$ 496,541 | 470,392 | 455,657 | 430,545 |
| Tax increment financing | 284,508 | 254,595 | 222,588 | 214,121 |
| Local option sales tax | 112,723 | 156,431 | 96,180 | 95,377 |
| Licenses and permits | 22,769 | 21,766 | 23,494 | 27,991 |
| Use of money and property | 4,596 | 6,211 | 4,468 | 13,720 |
| Intergovernmental | 241,040 | 235,413 | 254,831 | 405,834 |
| Charges for service | 155,271 | 152,792 | 143,379 | 134,384 |
| Miscellaneous | 42,795 | 98,253 | 123,614 | 83,750 |
| Total | <u>\$ 1,360,243</u> | <u>1,395,853</u> | <u>1,324,211</u> | <u>1,405,722</u> |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | \$ 296,015 | 329,383 | 304,288 | 515,199 |
| Public works | 364,085 | 364,237 | 311,414 | 375,854 |
| Culture and recreation | 274,294 | 358,601 | 270,496 | 284,172 |
| General government | 147,258 | 104,361 | 166,137 | 118,079 |
| Debt service | 336,804 | 238,019 | 50,350 | 33,567 |
| Total | <u>\$ 1,418,456</u> | <u>1,394,601</u> | <u>1,102,685</u> | <u>1,326,871</u> |

See accompanying independent auditor's report.

| 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|-----------|---------|-----------|---------|-----------|---------|
| 427,218 | 399,536 | 383,917 | 379,516 | 388,312 | 392,878 |
| 193,892 | 46,601 | 103,795 | 97,319 | 60,240 | 43,476 |
| 83,314 | - | - | - | - | - |
| 20,999 | 21,486 | 19,373 | 20,114 | 19,606 | 5,224 |
| 19,544 | 28,290 | 10,014 | 13,208 | 11,283 | 16,535 |
| 208,746 | 198,387 | 324,316 | 197,004 | 365,128 | 247,483 |
| 140,549 | 135,330 | 134,159 | 133,396 | 127,059 | 124,214 |
| 91,940 | 122,621 | 106,014 | 143,952 | 98,564 | 85,464 |
| 1,186,202 | 952,251 | 1,081,588 | 984,509 | 1,070,192 | 915,274 |
| 281,161 | 163,328 | 330,627 | 195,402 | 166,751 | 159,505 |
| 359,504 | 276,829 | 301,510 | 350,321 | 305,250 | 273,179 |
| 234,978 | 313,630 | 194,706 | 194,587 | 203,080 | 195,381 |
| 139,740 | 117,799 | 133,330 | 130,106 | 127,951 | 109,695 |
| 33,189 | 16,595 | 201,861 | 61,172 | 61,781 | 62,372 |
| 1,048,572 | 888,181 | 1,162,034 | 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 aggregate remaining fund information of the City of Wapello, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 25, 2012. 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

The management of the City of Wapello is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be 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 described in the accompanying Schedule of Findings as items (A) through (C) 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 (D) through (F) 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, 2012 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.

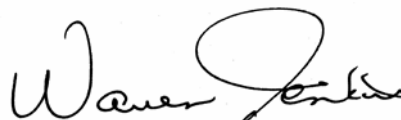
The City of Wapello's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Wapello's responses and, accordingly, we express no opinion on them.

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

October 25, 2012

City of Wapello

Schedule of Findings

Year ended June 30, 2012

Findings Related to the Financial Statements:

INTERNAL CONTROL 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.

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.

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 indicated by the signature or initials of the independent reviewer and the date of the review.

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

Conclusion – Response accepted.

City of Wapello

Schedule of Findings

Year ended June 30, 2012

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

Recommendation – Monthly bank to book reconciliations which include all City bank accounts and investments should be prepared. 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 review and approval.

Response – The City will reconcile and prepare monthly financial reports for the City Council to approve.

Conclusion – Response accepted.

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

- The City budgeted principal and interest payments on certain debt under the community and economic development function but posted actual disbursements of \$336,804 to the debt service function. In accordance with the Uniform Chart of Accounts for City Governments, debt payments should be budgeted and paid from the debt service function.
- \$45,060 of property tax levied for liability insurance was incorrectly classified as “miscellaneous” receipts rather than “property tax” receipts.
- \$36,239 of sanitation receipts were incorrectly classified as “miscellaneous” receipts rather than “charges for service”.
- IJOBS receipts totaling \$129,000 were incorrectly classified as “miscellaneous” receipts rather than “intergovernmental” receipts.

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 implement procedures to ensure debt payments are made from the Debt Service Fund and receipts are properly coded.

Conclusion – Response accepted.

- (D) Computer Systems – The following weaknesses in the City’s computer systems were noted:

The City does not have written policies for:

- Requiring password changes because software does not require the user to change log-ins/passwords and/or preventing the reuse of the same password.
- Requiring lock out if the password is incorrectly entered three times in a row.
- Requiring computer journal entries to be reviewed and approved by an independent individual.

City of Wapello

Schedule of Findings

Year ended June 30, 2012

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.

Recommendation – The City should develop written policies addressing the above items to improve the City's control over its computer systems.

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

Conclusion – Response accepted.

- (E) Utility Reconciliations – Although a reconciliation of utility billings, collections and delinquent accounts is performed each billing cycle, variances identified by the reconciliations are not resolved.

Recommendation – Procedures should be established to ensure identified utility reconciliation variances are resolved timely.

Response – Variances will be investigated at the time of reconciliation.

Conclusion – Response accepted.

- (F) 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 reconciliations, initiating cash receipt and disbursement transactions 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.

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.

Response – The Fire Department will review the operating procedures and implement procedures where possible.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Wapello

Schedule of Findings

Year ended June 30, 2012

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the 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 amend future budgets before disbursements exceed the budget.

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 and installation of roll cage in new cruiser | \$ 4,565 |
| | Urban renewal development agreement | * |
| Troy Mitchell, Council Member, Owner of Mitchell Arm Ammo | Ammo and hearing protection for police | 892 |
| Larry Wagg, Council Member, owner of Brown's Repair | Lawnmower repair | 238 |
| Stacy Griffin, Pool Board Member, Owner of Stitches and Cream | Pool concessions | 1,314 |
| Todd Schutt, Board of Adjustment/ Parks and Recreation Board Member | Power washing and painting | 1,444 |

* Total amount of this agreement is based on rebate of future property tax and, accordingly, the amount is unknown at June 30, 2012. During the year ended June 30, 2012, the City paid \$1,716 under this agreement.

The transactions with City Council Member Mitchell, Council Member Wagg, Pool Board Member Griffin and Board of Adjustment and Parks and Recreation Board Member Schutt 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.

City of Wapello

Schedule of Findings

Year ended June 30, 2012

According to the City Attorney, a conflict of interest does not exist related to the urban renewal development agreement with Council Member Maine since Mr. Maine abstained from voting on the issue of entering into an agreement.

The remaining transactions with Council Member Maine may represent a conflict of interest since the total transactions exceeded \$1,500 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.

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 – Except as noted below, no transactions were found that we believe should have been approved in the minutes but were not.

Although minutes of Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also, publications did not include a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa.

Response – The City will comply with this recommendation in the future.

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) 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 and various parks and recreation accounts were not included in the City's computer system and/or in the monthly financial reports.

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

City of Wapello

Schedule of Findings

Year ended June 30, 2012

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

Conclusion – Response accepted.

- (9) Payment of General Obligation Notes – Principal and interest on the City’s 2002, 2008 and 2009 general obligation notes were paid from the Enterprise, Water and Sewer Funds and the Special Revenue, Tax Increment Financing 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 Special Revenue, Tax Increment Financing Fund and the Enterprise, Water and Sewer Funds to the Debt Service Fund for future funding contributions. Payments on the notes should then be made from the Debt Service Fund as required.

Response – The City will implement procedures to ensure note payments are made from the Debt Service Fund.

Conclusion – Response accepted.

- (10) Financial Condition – The City had a deficit balance of \$85,762 in the Special Revenue, Road Use Tax Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial position.

Response – The City will look into ways to eliminate the deficit.

Conclusion – Response accepted.

- (11) 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 items over two years old should be remitted to the Office of Treasurer of State as required.

Response – The City will review all outstanding checks for correctness and will remit items over two years old to the State Treasurer.

Conclusion – Response accepted.

City of Wapello

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Brandon J. Vogel, Staff Auditor
Thomas S. Hebert, Assistant Auditor
Eric L. Rath, Assistant Auditor

A handwritten signature in black ink, reading "Andrew E. Nielsen". The signature is fluid and cursive, with the first name "Andrew" and last name "Nielsen" clearly legible.

Andrew E. Nielsen, CPA
Deputy Auditor of State