



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE November 30, 2011

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$1,153,845 for the year ended June 30, 2011. The receipts included \$319,147 in property tax, \$85,355 from tax increment financing, \$113,157 from local option sales tax, \$4,102 from unrestricted interest on investments, \$258,185 from charges for service, \$150,981 from operating grants, contributions and restricted interest, \$177,195 for capital grants, contributions and restricted interest, \$5,000 from bond proceeds and \$40,723 from other general receipts.

Disbursements for the year totaled \$1,343,930, and included \$495,211 for capital projects, \$215,594 for public works and \$141,336 for general government. Also, disbursements for business type activities totaled \$206,347.

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/1121-0742-B00F.pdf>.

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

JUNE 30, 2011

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City of Walnut

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gene Larsen	Mayor	Jan 2012
Kathy Humann (Appointed)	Council Member	Nov 2011
Martin Wood	Council Member	(Resigned)
James Zimmerman	Council Member	Jan 2012
Susan Shepherd	Council Member	Jan 2014
Darren Tooley	Council Member	Jan 2014
Cheryl True	Council Member	Jan 2014
Terri Abel	Clerk	Indefinite
Dona Grooms	Treasurer	Indefinite
Richard Schenck	Attorney	Indefinite

City of Walnut



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Walnut, Iowa, as of and for the year ended June 30, 2011, 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 Walnut's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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.

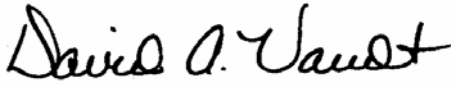
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Walnut as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

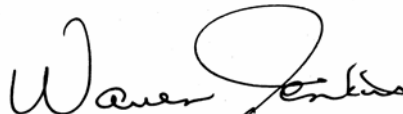
In accordance with Government Auditing Standards, we have also issued our report dated November 9, 2011 on our consideration of the City of Walnut's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Walnut's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 9, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Walnut 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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2011 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased approximately \$196,000 during the fiscal year, primarily due to an increase in disbursements for the construction of the Eagle Memorial and Splash Pad Projects.
- The cash basis net assets of the City's business type activities increased approximately \$6,000 during the fiscal year.

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.

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

Other 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 that 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, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user fees.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Employee Benefits, 3) the Debt Service Fund and 4) the Capital Projects 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 and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for water and sewer operations. An Internal Service Fund is used to accumulate and allocate costs internally among the City's various functions.

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

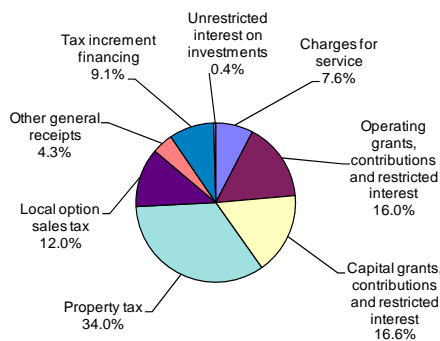
Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

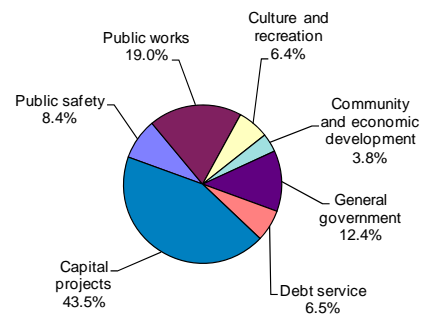
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$1,740,743 to \$1,544,649, primarily due to an increase in capital project disbursements during the year for the construction of the Eagle Monument and Splash Pad Projects. 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	
	Year ended June 30, 2011
Receipts:	
Program receipts:	
Charges for service	\$ 71,764
Operating grants, contributions and restricted interest	150,981
Capital grants, contributions and restricted interest	156,260
General receipts:	
Property tax	319,147
Tax increment financing	85,355
Local option sales tax	113,157
Unrestricted interest on investments	4,102
Other general receipts	40,723
Total receipts	941,489
Disbursements:	
Public safety	95,038
Public works	215,594
Culture and recreation	73,113
Community and economic development	43,306
General government	141,336
Debt service	73,985
Capital projects	495,211
Total disbursements	1,137,583
Change in cash basis net assets	(196,094)
Cash basis net assets beginning of year	1,740,743
Cash basis net assets end of year	\$ 1,544,649

Receipts by Source



Disbursements by Function



Total business type activities cash basis net assets increased approximately \$6,000 from a year ago, from \$188,750 to \$194,759.

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2011</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 148,349
Sewer	38,072
Capital grants, contributions and restricted interest	20,935
General receipts:	
Bond proceeds	5,000
Total receipts	<u>212,356</u>
Disbursements:	
Water	174,518
Sewer	31,829
Total disbursements	<u>206,347</u>
Change in cash basis net assets	6,009
Cash basis net assets beginning of year	<u>188,750</u>
Cash basis net assets end of year	<u>\$ 194,759</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Walnut completed the year, its governmental funds reported a combined fund balance of \$1,536,336, a decrease of \$199,074 below last year's total of \$1,735,410. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$148,749 from the prior year to a year-end balance of \$305,796. This decrease is primarily due to transfers from the General Fund to the Capital Projects Fund for the construction of the Eagle Monument and Splash Pad Projects.
- The Capital Projects Fund cash balance decreased \$17,201 from the prior year to a year-end balance of \$937,819. This decrease is primarily due to the completion of the Splash Pad Project.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance remained relatively stable.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 5, 2011 and resulted in an increase in operating disbursements of \$56,000 relating to the public works and culture and recreation functions. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$506,985 less than budgeted, primarily due to decreases in intergovernmental grants and receipts.

Total disbursements were \$770,388 less than the amended budget. This was primarily due to the City budgeting more disbursements in the capital projects function than were necessary as a result of delays in project completion. In addition, the actual disbursements for the debt service function were \$207 more than the amended budget. This is primarily due to the City not including some debt service fees in the debt service function budget.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$1,270,106 of general obligation bonds, revenue bonds, and other long-term debt outstanding, compared to \$1,321,611 last year. The chart below segregates the City’s debt into its component parts.

Outstanding Debt at Year-End		
	June 30,	
	2011	2010
General obligation bond	\$ 904,000	\$ 947,000
Water revenue bond	239,000	245,000
Urban renewal tax increment revenue bond	127,106	129,611
Total	\$1,270,106	\$1,321,611

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 is approximately \$833,000 below its constitutional debt limit of approximately \$1,866,000.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The City of Walnut’s elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities. The City’s fiscal year 2012 taxable valuation has increased approximately \$1,245,000 over fiscal year 2011.

The fiscal year 2012 budget contains total receipts of \$1,598,136 and disbursements of \$2,007,521. This budget is less than the amended fiscal year 2011 budget which contained total receipts of \$1,641,009 and disbursements of \$2,118,662.

The fiscal year 2012 levy is \$13.4998 per \$1,000 of taxable valuation, an increase from \$13.23996 per \$1,000 of taxable valuation for fiscal year 2011.

If these estimates are realized, the City’s budgeted cash balance is expected to decrease approximately \$186,000 by the close of fiscal year 2012.

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 Terri Abel, 221 Antique City Drive, Walnut, Iowa 51577.

City of Walnut

Basic Financial Statements

City of Walnut

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 95,038	23,449	57,754	-
Public works	215,594	45,214	77,365	-
Culture and recreation	73,113	250	15,862	78,874
Community and economic development	43,306	-	-	77,386
General government	141,336	2,851	-	-
Debt service	73,985	-	-	-
Capital projects	495,211	-	-	-
Total governmental activities	1,137,583	71,764	150,981	156,260
Business type activities:				
Water	174,518	148,349	-	20,935
Sewer	31,829	38,072	-	-
Total business type activities	206,347	186,421	-	20,935
Total	\$ 1,343,930	258,185	150,981	177,195

General Receipts:

Property and other city tax levied for general purposes
 Tax increment financing
 Local option sales tax
 Unrestricted interest on investments
 Bond proceeds
 Miscellaneous

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Local option sales tax - infrastructure
 Urban renewal purposes
 Streets
 Library
 Fire department
 Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(13,835)	-	(13,835)
(93,015)	-	(93,015)
21,873	-	21,873
34,080	-	34,080
(138,485)	-	(138,485)
(73,985)	-	(73,985)
(495,211)	-	(495,211)
(758,578)	-	(758,578)
-	(5,234)	(5,234)
-	6,243	6,243
-	1,009	1,009
(758,578)	1,009	(757,569)
319,147	-	319,147
85,355	-	85,355
113,157	-	113,157
4,102	-	4,102
-	5,000	5,000
40,723	-	40,723
562,484	5,000	567,484
(196,094)	6,009	(190,085)
1,740,743	188,750	1,929,493
\$ 1,544,649	194,759	1,739,408
\$ 224,665	-	224,665
12,780	-	12,780
68,201	-	68,201
141,625	-	141,625
43,643	-	43,643
26,472	22,670	49,142
1,027,263	172,089	1,199,352
\$ 1,544,649	194,759	1,739,408

Exhibit B

City of Walnut

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

As of and for the year ended June 30, 2011

	General	Capital Projects	Nonmajor	Total
Receipts:				
Property tax	\$ 181,941	-	72,179	254,120
Tax increment financing	-	-	85,355	85,355
Other city tax	75,201	101,841	1,142	178,184
Licenses and permits	1,568	-	-	1,568
Use of money and property	3,979	1,656	-	5,635
Intergovernmental	34,928	114,086	77,365	226,379
Charges for service	68,663	-	-	68,663
Miscellaneous	40,773	42,174	38,638	121,585
Total receipts	407,053	259,757	274,679	941,489
Disbursements:				
Operating:				
Public safety	54,046	-	40,992	95,038
Public works	82,325	-	134,759	217,084
Culture and recreation	64,955	-	8,158	73,113
Community and economic development	30,478	-	12,828	43,306
General government	105,745	-	37,081	142,826
Debt service	-	-	73,985	73,985
Capital projects	-	495,211	-	495,211
Total disbursements	337,549	495,211	307,803	1,140,563
Excess (deficiency) of receipts over (under) disbursements	69,504	(235,454)	(33,124)	(199,074)
Other financing sources (uses):				
Operating transfers in	-	218,253	73,985	292,238
Operating transfers out	(218,253)	-	(73,985)	(292,238)
Total other financing sources (uses)	(218,253)	218,253	-	-
Net change in cash balances	(148,749)	(17,201)	(33,124)	(199,074)
Cash balances beginning of year	454,545	955,020	325,845	1,735,410
Cash balances end of year	\$ 305,796	937,819	292,721	1,536,336
Cash Basis Fund Balances				
Restricted for:				
Local option sales tax - infrastructure	\$ -	224,665	-	224,665
Urban renewal purposes	-	-	12,780	12,780
Streets	-	-	68,201	68,201
Other purposes	-	-	211,740	211,740
Assigned for:				
Library purposes	278,477	-	-	278,477
Capital projects	-	713,154	-	713,154
Unassigned	27,319	-	-	27,319
Total cash basis fund balances	\$ 305,796	937,819	292,721	1,536,336

See notes to financial statements.

City of Walnut

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds

As of and for the year ended June 30, 2011

Total governmental funds cash balances (page 16) \$ 1,536,336

***Amounts reported for governmental activities in the Statement of
Activities and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the net assets of the Internal Service Fund is included in governmental activities in the Statement of Net Assets.

8,313

Cash basis net assets of governmental activities (page 15) \$ 1,544,649

Net change in cash balances (page 16) \$ (199,074)

***Amounts reported for governmental activities in the Statement of
Activities and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in net assets of the Internal Service Fund is reported with governmental activities.

2,980

Change in cash basis net assets of governmental activities (page 15) \$ (196,094)

See notes to financial statements.

Exhibit D

City of Walnut

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

As of and for the year ended June 30, 2011

	Enterprise			Internal
	Water	Sewer	Total	Service Employee Health
Operating receipts:				
Charges for service	\$ 146,719	38,072	184,791	10,470
Miscellaneous	1,630	-	1,630	-
Total operating receipts	148,349	38,072	186,421	10,470
Operating disbursements:				
Governmental activities:				
Public works	-	-	-	2,000
General government	-	-	-	2,000
Business type activities	155,632	31,829	187,461	2,000
Total operating disbursements	155,632	31,829	187,461	6,000
Excess (deficiency) of operating receipts over (under) operating disbursements	(7,283)	6,243	(1,040)	4,470
Non-operating receipts (disbursements):				
Bond proceeds	5,000	-	5,000	-
Debt service	(19,047)	-	(19,047)	-
Miscellaneous	19,606	-	19,606	-
Net non-operating receipts (disbursements)	5,559	-	5,559	-
Excess (deficiency) of receipts over (under) disbursements	(1,724)	6,243	4,519	4,470
Cash balances beginning of year	159,513	26,570	186,083	8,000
Cash balances end of year	\$ 157,789	32,813	190,602	12,470
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ 16,895	-	16,895	-
Customer deposits	5,775	-	5,775	-
Unrestricted	135,119	32,813	167,932	12,470
Total cash basis fund balances	\$ 157,789	32,813	190,602	12,470

See notes to financial statements.

City of Walnut

Reconciliation of the Statement of Cash Receipts, Disbursements -
and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds

As of and for the year ended June 30, 2011

Total enterprise funds cash balances (page 18) \$ 190,602

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the net assets of the Internal Service Fund is included in business type activities in the Statement of Net Assets.

4,157

Cash basis net assets of business type activities (page 15) \$ 194,759

Net change in cash balances (page 18) \$ 4,519

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in net assets of the Internal Service Fund is reported with business type activities.

1,490

Change in cash basis net assets of business type activities (page 15) \$ 6,009

See notes to financial statements.

City of Walnut

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Walnut is a political subdivision of the State of Iowa located in Pottawattamie County. It was first incorporated in 1871 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, health and social services, culture and recreation, community and economic development 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 Walnut 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 Walnut (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.

Blended Component Unit

The Walnut Fire and Rescue Association is legally separate from the City, but is so intertwined with the City it is, in substance, part of the City. The Walnut Fire and Rescue Association is organized under Chapter 504A of the Code of Iowa as a non-profit corporation and collects donations which are used to purchase items not included in the City's budget. The financial transactions of this component unit has been blended as a Special Revenue Fund of the City.

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: Pottawattamie County Assessor's Conference Board, Pottawattamie County Emergency Management Commission, E911 Service Board and Iowa Waste Systems Association.

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:

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

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

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

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

The City reports the following major governmental funds:

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

The Capital Projects Fund is utilized to account for the receipts and disbursements utilized for City capital projects.

The City reports the following major proprietary fund:

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

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the self funded health insurance plan.

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 paid, 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-restrictive 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:

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.

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

Unassigned – All amounts not included in other classifications.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2011 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, 2011, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Georgia Power Company corporate note	\$ 10,000	10,151	Sept 2040
Federal Farm Credit Banks Consolidated (FFCB) bond	30,455	30,053	July 2025
Federal Farm Credit Banks Consolidated (FFCB) bond	15,065	14,330	Sept 2025
Federal Home Loan Mortgage Corp (FHLMC) note	40,000	39,925	July 2030
Tennessee Valley Authority Power bond	31,820	30,596	July 2033
Total	<u>\$ 127,340</u>	<u>125,055</u>	

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$257,335 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

At June 30, 2011, the City’s corporate note is rated A/A3 and the City’s FFCB, FHLMC and Tennessee Valley Authority Power bond investments are rated AAA or Aaa by Standard & Poor’s or Moody’s Investors Service.

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.

Credit risk – The City’s investment in the Iowa Public Agency Investment Trust is unrated.

Concentration of credit risk – The City’s investment policy has the following limitations: no more than 10% of the investment portfolio may be invested in prime banker’s acceptances, commercial paper or other short-term corporate debt, no more than 5% of the investment portfolio may be invested in the securities of a single issuer and no more than 5% of all amounts invested in commercial paper or other short-term corporate debt shall be invested in commercial paper and debt rated in the second highest classification. When possible, it is the City’s policy to diversity its investment portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer or a specific class of securities. The investments in the Georgia Power Company, FFCB, FHLMC and Tennessee Valley Authority bonds are 2.6%, 11.8%, 10.4% and 8.3%, respectively, of the City’s total investments.

(3) Bonds Payable

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 45,000	27,120	11,000	7,170	56,000	34,290
2013	46,000	25,770	11,000	6,840	57,000	32,610
2014	48,000	24,390	12,000	6,510	60,000	30,900
2015	49,000	22,950	12,000	6,150	61,000	29,100
2016	50,000	21,480	12,000	5,790	62,000	27,270
2017-2021	276,000	83,790	67,000	23,220	343,000	107,010
2022-2026	320,000	39,900	79,000	12,510	399,000	52,410
2026-2028	70,000	2,100	35,000	1,590	105,000	3,690
Total	\$ 904,000	247,500	239,000	69,780	1,143,000	317,280

Water Improvement General Obligation Bonds – On December 20, 2007, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$1,030,000 of water improvement general obligation bonds with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of constructing improvements and extensions to the City’s water system.

Water Revenue Bonds – On December 20, 2007, the City entered into a State Revolving Fund loan agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of up to \$270,000 of water revenue bonds with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds are 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 City’s water system. At June 30, 2011, the City had drawn down all of the \$270,000 authorized. The total principal and interest remaining to be paid on the bonds is \$308,780. For the current year, principal and interest paid and total customer net receipts were \$18,372 and (\$7,283), respectively.

The resolution providing for the issuance of the water revenue bonds includes 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 water revenue bond sinking account for the purpose of making principal and interest payments when due.
- (c) User rates shall be established and charged to customers of the utility, including the City, at a level which produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

During fiscal year 2011, sufficient user rates were not established at a level to produce net revenues equal to at least 110% of the principal of and interest on the bonds as they became due. Also, rates are not being charged to the City as required.

(4) Urban Renewal Tax Increment Revenue Bond

On April 3, 1997, the City entered into a development agreement, under the provisions of Chapter 403 of the Code of Iowa, with Ransom Development, L.C.C. to assist in an urban renewal project. After completion of infrastructure improvements constructed by the developer, the City agreed to purchase the improvements from the developer for the developer's cost, not to exceed \$95,000. The City purchased the improvements by delivering to the developer an Urban Renewal Tax Increment Revenue Bond. The bond is not a general obligation of the City, but will be payable solely and only from the incremental property tax derived from the development. The developer will receive payments on the bond on June 1 and December 1 each year equal to the incremental property tax received by the City. Payments to the developer began December 1, 1999 and continue through fiscal year 2014 until the principal of \$95,000 and interest at the rate of 8% per annum have been repaid.

To the extent there is insufficient incremental property tax available on any payment date to make the scheduled payment, the unpaid amount shall be carried over to the next payment date. The unpaid principal and accrued interest totaled \$127,106 at June 30, 2011. During the year ended June 30, 2011, the City collected and paid \$12,828 of incremental property tax under the agreement.

(5) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% 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 contribution to IPERS for the year ended June 30, 2011 was \$10,488.

(6) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug, life insurance, short-term disability and dental benefits for employees and retirees and their spouses. There are 3 active and no retired members in the plan as of June 30, 2011. Retired participants must be age 55 or older at retirement.

The medical/prescription drug, life insurance, short-term disability and dental benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 would pay the same premium for the 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 benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$753 for single coverage and \$2,240 for family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2011, the City contributed 100% of plan premiums at a cost of \$73,082.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours 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. One-third of the total accumulated sick leave hours is paid upon retirement or death. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2011, primarily relating to the General, Road Use Tax and Water Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 10,800
Sick leave	<u>2,600</u>
Total	<u>\$ 13,400</u>

(8) Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Special Revenue: Urban Renewal TIF	\$ 73,985
Capital Projects	General	<u>218,253</u>
Total		<u>\$ 292,238</u>

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

(9) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2011 were \$35,983.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from another insurer for coverage associated with workmen's compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Internal Service, Employee Health Fund was established to account for the partial self-funding of the City's health insurance benefit plan. The plan is funded and administered by the City. The City assumes liability for deductibles up to \$2,500 per individual for each employee.

(10) Subsequent Event

In July 2011, the City entered into a construction contract totaling \$307,763 for a curb and gutter project.

City of Walnut

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Enterprise Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 254,120	-	-
Tax increment financing	85,355	-	-
Other city tax	178,184	-	-
Licenses and permits	1,568	-	-
Use of money and property	5,635	-	-
Intergovernmental	226,379	-	-
Charges for service	68,663	184,791	-
Miscellaneous	121,585	22,565	14,821
Total receipts	<u>941,489</u>	<u>207,356</u>	<u>14,821</u>
Disbursements:			
Public safety	95,038	-	126
Public works	217,084	-	-
Culture and recreation	73,113	-	-
Community and economic development	43,306	-	-
General government	142,826	-	-
Debt service	73,985	-	-
Capital projects	495,211	-	-
Business type activities	-	207,837	-
Total disbursements	<u>1,140,563</u>	<u>207,837</u>	<u>126</u>
Excess (deficiency) of receipts over (under) disbursements	(199,074)	(481)	14,695
Other financing sources, net	-	5,000	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(199,074)	4,519	14,695
Balances beginning of year	1,735,410	186,083	-
Balances end of year	<u>\$ 1,536,336</u>	<u>190,602</u>	<u>14,695</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
254,120	254,788	254,788	(668)
85,355	87,065	87,065	(1,710)
178,184	183,051	183,051	(4,867)
1,568	2,025	2,025	(457)
5,635	34,615	34,615	(28,980)
226,379	778,465	778,465	(552,086)
253,454	256,000	256,000	(2,546)
129,329	45,000	45,000	84,329
<u>1,134,024</u>	<u>1,641,009</u>	<u>1,641,009</u>	<u>(506,985)</u>
94,912	113,333	113,333	18,421
217,084	229,458	250,458	33,374
73,113	101,787	136,787	63,674
43,306	59,987	59,987	16,681
142,826	143,533	143,533	707
73,985	73,778	73,778	(207)
495,211	1,019,913	1,019,913	524,702
207,837	320,873	320,873	113,036
<u>1,348,274</u>	<u>2,062,662</u>	<u>2,118,662</u>	<u>770,388</u>
(214,250)	(421,653)	(477,653)	263,403
5,000	-	-	5,000
(209,250)	(421,653)	(477,653)	268,403
<u>1,921,493</u>	<u>1,829,663</u>	<u>1,929,337</u>	<u>(7,844)</u>
<u>1,712,243</u>	<u>1,408,010</u>	<u>1,451,684</u>	<u>260,559</u>

City of Walnut

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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 Internal Service Fund and the blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$56,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amount budgeted in the debt service function.

Other Supplementary Information

City of Walnut

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

As of and for the year ended June 30, 2011

	Road Use Tax	Employee Benefits	Urban Renewal TIF	Special Ransom Development TIF
Receipts:				
Property tax	\$ -	72,179	-	-
Tax increment financing	-	-	72,527	12,828
Other city tax	-	1,142	-	-
Intergovernmental	77,365	-	-	-
Miscellaneous	-	-	-	-
Total receipts	<u>77,365</u>	<u>73,321</u>	<u>72,527</u>	<u>12,828</u>
Disbursements:				
Operating:				
Public safety	-	2,747	-	-
Public works	99,276	35,483	-	-
Culture and recreation	-	2,875	-	-
Community and economic development	-	-	-	12,828
General government	-	37,081	-	-
Debt service	-	-	-	-
Total disbursements	<u>99,276</u>	<u>78,186</u>	<u>-</u>	<u>12,828</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(21,911)</u>	<u>(4,865)</u>	<u>72,527</u>	<u>-</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers (out)	-	-	(73,985)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(73,985)</u>	<u>-</u>
Net change in cash balances	(21,911)	(4,865)	(1,458)	-
Cash balances beginning of year	90,112	31,337	14,238	-
Cash balances end of year	<u>\$ 68,201</u>	<u>26,472</u>	<u>12,780</u>	<u>-</u>
Cash Basis Fund Balances				
Restricted for other purposes	<u>\$ 68,201</u>	<u>26,472</u>	<u>12,780</u>	<u>-</u>

See accompanying independent auditor's report.

Revenue					
Library Memorial	Library Investment	Walnut Fire and Rescue Association	Fire Department	Debt Service	Total
-	-	-	-	-	72,179
-	-	-	-	-	85,355
-	-	-	-	-	1,142
-	-	-	-	-	77,365
2,816	4,350	14,821	16,651	-	38,638
2,816	4,350	14,821	16,651	-	274,679
-	-	126	38,119	-	40,992
-	-	-	-	-	134,759
2,234	3,049	-	-	-	8,158
-	-	-	-	-	12,828
-	-	-	-	-	37,081
-	-	-	-	73,985	73,985
2,234	3,049	126	38,119	73,985	307,803
582	1,301	14,695	(21,468)	(73,985)	(33,124)
-	-	-	-	73,985	73,985
-	-	-	-	-	(73,985)
-	-	-	-	73,985	-
582	1,301	14,695	(21,468)	-	(33,124)
3,261	136,481	-	50,416	-	325,845
3,843	137,782	14,695	28,948	-	292,721
3,843	137,782	14,695	28,948	-	292,721

City of Walnut
Schedule of Indebtedness
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bond: Water improvement	Dec 20, 2007	3.00% *	\$ 1,030,000
Revenue bond: Water	Dec 20, 2007	3.00% *	\$ 270,000
Urban renewal tax increment revenue bond	Apr 3, 1997	8.00%	\$ 95,000

* The agreement also requires the City to 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
947,000	-	43,000	904,000
245,000	5,000	11,000	239,000
129,611	-	2,505	127,106

Schedule 3

City of Walnut

Bond Maturities

June 30, 2011

Year Ending June 30,	General Obligation Bonds		Revenue Bonds	
	Water Improvement		Water Revenue Bond, Series 2007	
	Issued Dec 20, 2007		Issued Dec 20, 2007	
	Interest Rates	Amount	Interest Rates	Amount
2012	3.00%	\$ 45,000	3.00%	\$ 11,000
2013	3.00	46,000	3.00	11,000
2014	3.00	48,000	3.00	12,000
2015	3.00	49,000	3.00	12,000
2016	3.00	50,000	3.00	12,000
2017	3.00	52,000	3.00	13,000
2018	3.00	54,000	3.00	13,000
2019	3.00	55,000	3.00	13,000
2020	3.00	57,000	3.00	14,000
2021	3.00	58,000	3.00	14,000
2022	3.00	60,000	3.00	15,000
2023	3.00	62,000	3.00	15,000
2024	3.00	64,000	3.00	16,000
2025	3.00	66,000	3.00	16,000
2026	3.00	68,000	3.00	17,000
2027	3.00	70,000	3.00	17,000
2028		-	3.00	18,000
Total		<u>\$ 904,000</u>		<u>\$ 239,000</u>

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Walnut, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 9, 2011. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Walnut'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 an opinion on the effectiveness of the City of Walnut's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Walnut'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 a deficiency in internal control over financial reporting we consider to be a material weakness and another deficiency we consider to be a significant deficiency.

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 Walnut's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be a material weakness.

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 deficiency described in the accompanying Schedule of Findings as item (B) to be a significant deficiency.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the City of Walnut'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.

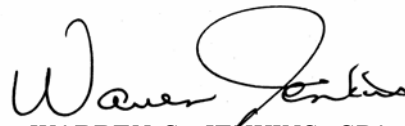
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions 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 Walnut's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Walnut'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 Walnut and other parties to whom the City of Walnut may report and 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 Walnut during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 9, 2011

City of Walnut
Schedule of Findings
Year ended June 30, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important element in designing internal control to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check on those of another. One person has control over each of the following areas:
- (1) Accounting system – performing all general accounting functions and having custody of assets.
 - (2) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
 - (3) Receipts – collecting, depositing, journalizing and posting.
 - (4) Utility receipts – billing, collecting, depositing, posting and reconciling.
 - (5) Disbursements – purchasing, check signing, recording and reconciling.
 - (6) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.
 - (7) Payroll – recording, reconciling and check signing

For the City Library, one person handles and records collections, prepares deposits, prepares, signs and mails checks and reconciles the bank account.

For the Walnut Fire and Rescue Association, one person handles and records collections, prepares deposits, prepares, signs and mails checks and reconciles the bank account.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control activities 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 initials or signature of the independent reviewer and the date of the review.

Response – Because Walnut is a small city, it is difficult to assure the segregation of duties; however, the City will continue to do what it can to segregate duties wherever possible.

Conclusion – Response accepted.

City of Walnut

Schedule of Findings

Year ended June 30, 2011

- (B) Information System – During our review of internal control, the existing control activities in the City’s computer-based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City’s computer based systems were noted:

The City does not have written policies for:

- password privacy and confidentiality of passwords and confidential information.
- requiring employees to change passwords every 60 to 90 days.
- maintaining password history to prevent employees from reusing the same password.
- ensuring only software licensed to the City is installed on computers.
- personal usage of City equipment and software.
- usage of the internet.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies and procedures addressing the above items in order to improve the City’s control over computer based systems. Also, a written disaster recovery plan should be developed and should be tested periodically.

Response – The City will develop written policies for the City’s computers. The City will also develop a written disaster recovery plan.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Walnut

Schedule of Findings

Year ended June 30, 2011

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City will make certain that all upcoming budgets are amended before disbursements are allowed to 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 – No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – Although the City has adopted a written investment policy, it does not comply with Chapter 12B.10 of the Code of Iowa. In addition, investments totaling \$41,820 do not appear to comply with Chapter 12B.10 of the Code of Iowa.

Recommendation – The City should establish an investment policy which complies with the provisions of Chapter 12B.10 of the Code of Iowa and ensure all investments meet those requirements.

Response – The City will endeavor to establish an investment policy which complies with the proper provisions of the Code of Iowa and will ensure investments meet those requirements.

Conclusion – Response accepted.

- (8) Revenue Bonds – The provisions of the water revenue bonds require the City to pay for its water usage from the General Fund. The City does not currently pay for its water usage. In addition, sufficient user rates have not been established at a level to produce net revenues equal to at least 110% of the principal of and interest on the bonds as they become due, as required by bond provisions.

City of Walnut

Schedule of Findings

Year ended June 30, 2011

Recommendation – The City should ensure City water usage is paid from the General Fund as required by the bond provisions. In addition, the City should implement utility rates which will allow net receipts to comply with bond provisions.

Response – The City will endeavor to comply with the bond provisions relative to paying the City's usage of water. The City has already increased the maintenance fee for water which should allow net receipts to comply with bond requirements.


Conclusion – Response accepted

City of Walnut

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Dorothy O. Stover, Staff Auditor
Robert W. Endriss, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State