



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

May 4, 2007

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

The City has implemented new reporting standards for the year ended June 30, 2006, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$1,043,231 for the year ended June 30, 2006. The receipts included \$261,703 in property tax, \$275,406 from tax increment financing, \$186,930 from charges for service, \$103,530 from operating grants, contributions and restricted interest, \$43,656 from capital grants, contributions and restricted interest, \$156,444 from sewer improvement bond proceeds, \$8,991 from unrestricted interest on investments and \$6,571 from other general receipts.

Disbursements for the year totaled \$952,298, and included \$200,034 for debt service, \$169,272 for public works and \$105,803 for community and economic development. Also, disbursements for business type activities totaled \$325,061.

A copy of the report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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

JUNE 30, 2006

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City of Walford

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Randy Bauer	Mayor	Jan 2008
Dennis Peiffer	Mayor Pro tem	Jan 2008
Jan Johnson	Council Member	Jan 2006
Patrick Mahoney	Council Member	Jan 2006
Jeff Kane	Council Member	Jan 2008
Neil Schulte	Council Member	Jan 2008
(After January 2006)		
Randy Bauer	Mayor	Jan 2008
Dennis Peiffer	Mayor Pro tem	Jan 2008
Jeff Kane	Council Member	Jan 2008
Neil Schulte	Council Member	Jan 2008
Chris Jaster	Council Member	Jan 2010
Patrick Mahoney	Council Member	Jan 2010
Janet Gann	Clerk/Treasurer	Indefinite
Elizabeth D. Jacobi	Attorney	Resigned Dec 2006
Scott Peterson	Attorney	Indefinite

City of Walford



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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 Walford, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City'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, 2005.

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, 2005, 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 Walford as of June 30, 2006, 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.

As described in Note 9, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated February 22, 2007 on our consideration of the City of Walford's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 26 through 28 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 Walford's basic financial statements. Other supplementary information included in Schedules 1 and 2 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, 2005, 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

February 22, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Walford 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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since 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.

2006 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 7%, or approximately \$44,000, from fiscal 2005 to fiscal 2006. Tax increment financing receipts increased approximately \$43,000, while property tax receipts decreased approximately \$3,000.
- Disbursements of the City's governmental activities decreased .5%, or approximately \$3,000, from fiscal 2005. Disbursements of the City's business type activities decreased approximately \$1.4 million primarily a result of the completion of the expansion of the waste water treatment facility project in fiscal 2005.
- The City's total cash basis net assets increased 15.7%, or approximately \$91,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of governmental activities increased approximately \$29,000 and the assets of business type activities increased approximately \$62,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly the financial statements do not present financial position and results of operations of the funds 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, 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 operation of the sanitary sewer and landfill/garbage collection. 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 and Urban Renewal Tax Increment, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

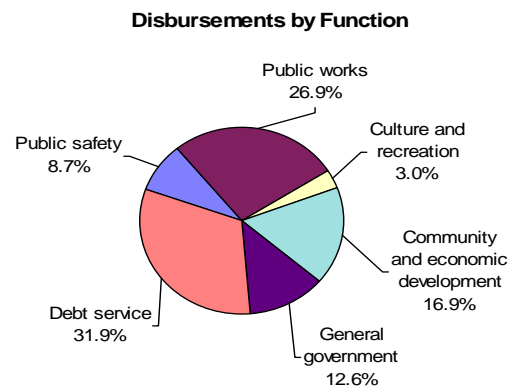
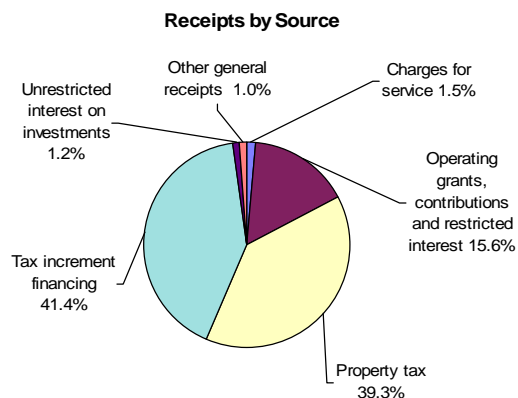
2) **Proprietary funds** account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Sewer and Landfill/Garbage Funds, considered to be the major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased 7.2% from a year ago, increasing from \$406,000 to \$436,000. 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, 2006
Receipts:	
Program receipts:	
Charges for service	\$ 10,149
Operating grants, contributions and restricted interest	103,530
General receipts:	
Property tax	261,703
Tax increment financing	275,406
Unrestricted interest on investments	8,039
Other general receipts	6,571
Total receipts	<u>665,398</u>
Disbursements:	
Public safety	54,808
Public works	169,272
Culture and recreation	18,536
Community and economic development	105,803
General government	78,784
Debt service	200,034
Total disbursements	<u>627,237</u>
Excess of receipts over disbursements	38,161
Operating transfers, net	(8,872)
Increase in cash basis net assets	<u>29,289</u>
Cash basis net assets beginning of year	<u>406,473</u>
Cash basis net assets end of year	<u>\$ 435,762</u>



The City's total receipts of governmental activities increased 7%, or \$43,830. The property tax rates remained the same for 2006. The intent was to remain neutral on property tax revenue due to the state-mandated rollback. Walford's tax rate, \$7.75 per \$1,000 of taxable property valuation, continues to be among the lowest in the area.

The cost of all governmental activities was \$627,237 in FY 2006 compared to \$624,348 in FY 2005, an increase of \$2,889.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for services:	
Sewer	\$ 102,334
Landfill/garbage	74,447
Capital grants, contributions and restricted interest	43,656
General receipts:	
Bond proceeds	156,444
Unrestricted interest on investments	952
Total receipts	<u>377,833</u>
Disbursements:	
Sewer	253,134
Landfill/Garbage	71,927
Total disbursements	<u>325,061</u>
Excess of receipts over disbursements	52,772
Operating transfers, net	8,872
Increase in cash basis net assets	<u>61,644</u>
Cash basis net assets beginning of year	172,755
Cash basis net assets end of year	<u>\$ 234,399</u>

Total business type activities receipts for the fiscal year were \$377,833 compared to \$1,748,649 in the prior fiscal year. This significant decrease in receipts is due primarily to State Revolving Fund bond proceeds of \$1,565,059 for waste water treatment facility improvements in FY 2005 compared to \$156,444 of bond proceeds in FY 2006.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Walford completed the year, its governmental funds reported a combined fund balance of \$435,762, an increase of \$29,289 over last year's total of \$406,473.

The General Fund cash balance increased \$48,859 from the prior year to a year-end balance of \$424,306, primarily because the City's actual costs for legal services and city property maintenance were less than the amount budgeted.

The Road Use Tax Fund cash balance decreased from \$31,026 to \$11,546 due, in part, to an additional street project.

The Urban Renewal Tax Increment Fund cash balance was \$0 at year end. A transfer of \$8,872 to the Enterprise, Sewer Fund for future debt reduced the cash balance to \$0 at June 30, 2006. The City intends to use these receipts for debt service associated with the waste water system improvements and for development agreement rebates.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Sewer Fund cash balance increased \$59,124 to \$232,183. The increase is related primarily to decreased disbursements. The significant decrease in disbursements from the prior fiscal year was primarily a result of the completion of the expansion of the waste water treatment facility in 2005. The expansion was funded by bond proceeds received under the State of Iowa State Revolving Fund. The Council will continue to monitor this fund and, if necessary, make adjustments for disbursements and receipts.

The Landfill/Garbage Fund cash balance increased by \$2,520 to a year end balance of \$2,216 at June 30, 2006.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 8, 2006 and resulted in an increase in operating disbursements, primarily related to a cost overrun of approximately \$54,000 on the wastewater facility project. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$53,004 more than budgeted. This was primarily due to the City receiving a \$43,656 project related sales tax refund.

Total disbursements were \$49,520 less than the amended budget. Disbursements for business type activities, public works, general government and public safety were \$83,866, \$60,799, \$38,679 and \$29,645 less than budgeted. This was primarily due to completion of the waste water treatment facility expansion project, a street lighting project not getting done and disbursements in the general government and public safety functions being lower than originally budgeted.

DEBT ADMINISTRATION

At June 30, 2006 the City had \$2,295,893 in note/bond debt outstanding, compared to \$2,259,152 at June 30, 2005, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2006	2005
General obligation notes	\$ 131,893	155,596
General obligation bonds	2,164,000	2,103,556
Total	\$ 2,295,893	2,259,152

Debt increased as a result of bond proceeds from the State Revolving Fund for waste water treatment facility improvements. The City anticipates future tax increment financing proceeds will be sufficient to cover the debt service of the waste water treatment facilities project.

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 \$2,295,893 is below its constitutional debt limit of \$3,962,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City is in the process of approving its FY 2008 budget. The City attempts to balance the needs of the City with the goal of maintaining a low property tax rate. Under the proposed budget, the levy for FY 2008 will remain at \$8.10 per \$1,000 of taxable property valuation. This is expected to result in a slight increase in the amount of property tax revenue available over FY 2007. The City is projecting an operating loss in the Sewer Fund due to higher than anticipated operating expenses, primarily for utilities. At this point, the City is not planning a rate increase, but will continue to monitor. If losses continue, an increase in fees may be required in the future.

Overall, City receipts for FY 2008 are expected to increase to \$922,000 from \$890,000 in FY 2007. The City is projecting to operate at a loss of approximately \$75,000 in FY 2008. This is due to a projected \$30,000 loss in the operation of the sewer utility, as well as capital replacement of some of the City's equipment due to age and condition. The City has re-estimated its FY 2007 budget and now anticipates an ending fund balance of \$588,264. The City expects the FY 2008 ending fund balance will decline to \$513,592.

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 Janet Gann, City Clerk, PO Box 148, 120 5th Street N, Walford, Iowa 52351-0148.

Basic Financial Statements

City of Walford

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 54,808	2,600	-	-
Public works	169,272	1,339	102,480	-
Culture and recreation	18,536	5,080	1,050	-
Community and economic development	105,803	-	-	-
General government	78,784	1,130	-	-
Debt service	200,034	-	-	-
Total governmental activities	627,237	10,149	103,530	-
Business type activities:				
Sewer	253,134	102,334	-	43,656
Landfill/garbage	71,927	74,447	-	-
Total business type activities	325,061	176,781	-	43,656
Total	\$ 952,298	186,930	103,530	43,656
General Receipts:				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Unrestricted interest on investments				
Sewer improvement bond proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted for streets				
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
(52,208)	-	(52,208)
(65,453)	-	(65,453)
(12,406)	-	(12,406)
(105,803)	-	(105,803)
(77,654)	-	(77,654)
(200,034)	-	(200,034)
(513,558) [¶]	-	(513,558)
-	(107,144)	(107,144)
-	2,520	2,520
-	(104,624)	(104,624)
(513,558)	(104,624)	(618,182)
261,703	-	261,703
275,406	-	275,406
8,039	952	8,991
-	156,444	156,444
6,571	-	6,571
(8,872)	8,872	-
542,847 [¶]	166,268	709,115
29,289	61,644	90,933
406,473	172,755	579,228
\$ 435,762	234,399	670,161
\$ 11,456	-	11,456
424,306	234,399	658,705
\$ 435,762	234,399	670,161

City of Walford

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

As of and for the year ended June 30, 2006

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 260,019	-	-
Tax increment financing	-	-	275,406
Other city tax	1,684	-	-
Licenses and permits	3,730	-	-
Use of money and property	12,039	-	-
Intergovernmental	-	102,480	-
Charges for service	2,585	-	-
Miscellaneous	7,455	-	-
Total receipts	287,512	102,480	275,406
Disbursements:			
Operating:			
Public safety	54,808	-	-
Public works	47,222	122,050	-
Culture and recreation	18,536	-	-
Community and economic development	7,498	-	98,305
General government	78,784	-	-
Debt service	-	-	168,229
Total disbursements	206,848	122,050	266,534
Excess (deficiency) of receipts over (under) disbursements	80,664	(19,570)	8,872
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	(31,805)	-	(8,872)
Total other financing sources (uses)	(31,805)	-	(8,872)
Net change in cash balances	48,859	(19,570)	-
Cash balances beginning of year	375,447	31,026	-
Cash balances end of year	\$ 424,306	11,456	-
Cash Basis Fund Balances			
Unreserved:			
General fund	\$ 424,306	-	-
Special revenue funds	-	11,456	-
Total cash basis fund balances	\$ 424,306	11,456	-

See notes to financial statements.

Nonmajor Debt Service	Total
-	260,019
-	275,406
-	1,684
-	3,730
-	12,039
-	102,480
-	2,585
-	7,455
-	665,398
-	54,808
-	169,272
-	18,536
-	105,803
-	78,784
31,805	200,034
31,805	627,237
(31,805)	38,161
31,805	31,805
31,805	(40,677)
31,805	(8,872)
-	29,289
-	406,473
-	435,762
-	424,306
-	11,456
-	435,762

City of Walford

City of Walford

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

As of and for the year ended June 30, 2006

	Enterprise		
	Sewer	Landfill/ Garbage	Total
Operating receipts:			
Charges for service	\$ 101,550	74,447	175,997
Miscellaneous, primarily sales tax refunds	44,440	-	44,440
Total operating receipts	145,990	74,447	220,437
Operating disbursements:			
Business type activities	253,134	71,927	325,061
Excess (deficiency) of operating receipts over (under) operating disbursements	(107,144)	2,520	(104,624)
Non-operating receipts:			
Interest on investments	952	-	952
Excess (deficiency) of receipts over (under) disbursements	(106,192)	2,520	(103,672)
Other financing sources:			
Operating transfers in	8,872	-	8,872
State Revolving Fund sewer improvement bond proceeds	156,444	-	156,444
Total other financing sources	165,316	-	165,316
Net change in cash balances	59,124	2,520	61,644
Cash balances beginning of year	173,059	(304)	172,755
Cash balances end of year	\$ 232,183	2,216	234,399
Cash Basis Fund Balances			
Unreserved	\$ 232,183	2,216	234,399

See notes to financial statements.

City of Walford

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Walford is a political subdivision of the State of Iowa located in Linn and Benton Counties. It was first incorporated in 1954 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 sewer and landfill/garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Walford 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. The City has no component units which meet the Governmental Accounting Standards Board criteria.

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: Linn and Benton County Assessor's Conference Boards, Linn and Benton County Emergency Management Commissions and Linn and Benton County Joint E911 Service Boards.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The City reports the following major proprietary funds:

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

The Landfill/Garbage Fund accounts for the operation and maintenance of the City's solid waste pick up and landfill fee system.

C. Measurement Focus and Basis of Accounting

The City of Walford 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.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 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.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Notes		General Obligation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 24,172	6,833	98,000	64,920	122,172	71,753
2008	24,670	5,535	102,000	61,980	126,670	67,515
2009	25,198	4,207	104,000	58,921	129,198	63,128
2010	25,853	2,847	108,000	55,800	133,853	58,647
2011	16,000	1,600	110,000	52,560	126,000	54,160
2012 - 2016	16,000	800	604,000	211,110	620,000	211,910
2017 - 2021	-	-	700,000	114,900	700,000	114,900
2022 - 2024	-	-	338,000	16,500	338,000	16,500
Total	\$ 131,893	21,822	2,164,000	636,691	2,295,893	658,513

The Code of Iowa requires principal and interest on general obligation debt be paid from the Debt Service Fund. However, during the year, \$162,407 of general obligation bond principal and interest was paid from the Urban Renewal Tax Increment Fund.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% 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, 2006 was \$4,848, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation 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. The City's approximate liability for earned vacation payable to employees at June 30, 2006, primarily relating to the General Fund, is approximately \$900. This liability has been computed based on rates of pay in effect at June 30, 2006.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	General	\$ 31,805
Enterprise: Sewer	Special Revenue: Urban Renewal Tax Increment	8,872
Total		<u>\$ 40,677</u>

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

(7) Development and Rebate Agreements

The City has entered into two development agreements to assist in certain urban renewal projects. The City agreed to rebate incremental tax paid by the participating company with respect to the improvements set forth in the urban renewal plan. The incremental tax to be received by the City will be rebated for a period of ten years, beginning in 1997 and 2002, respectively, for each agreement. The total amount to be rebated in any fiscal year under the initial development agreement is limited to fifty percent of the tax paid on the property.

During the year ended June 30, 2006, the City rebated \$98,305 of incremental tax under these agreements.

(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) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type.

Implementation of these standards had no effect on the beginning balances of the City.

Required Supplementary Information

City of Walford
 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, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 260,019	-
Tax increment financing	275,406	-
Other city tax	1,684	-
Licenses and permits	3,730	-
Use of money and property	12,039	952
Intergovernmental	102,480	-
Charges for service	2,585	175,997
Miscellaneous	7,455	44,440
Total receipts	665,398	221,389
Disbursements:		
Public safety	54,808	-
Public works	169,272	-
Culture and recreation	18,536	-
Community and economic development	105,803	-
General government	78,784	-
Debt service	200,034	-
Business type activities	-	325,061
Total disbursements	627,237	325,061
Excess (deficiency) of receipts over (under) disbursements	38,161	(103,672)
Other financing sources, net	(8,872)	165,316
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	29,289	61,644
Balances beginning of year	406,473	172,755
Balances end of year	\$ 435,762	234,399

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
260,019	260,702	260,702	(683)
275,406	291,595	291,595	(16,189)
1,684	2,745	2,745	(1,061)
3,730	4,595	4,595	(865)
12,991	4,003	4,003	8,988
102,480	104,652	104,652	(2,172)
178,582	165,491	165,491	13,091
51,895	-	-	51,895
886,787	833,783	833,783	53,004
54,808	84,403	84,453	29,645
169,272	195,718	230,071	60,799
18,536	34,825	37,255	18,719
105,803	123,649	123,649	17,846
78,784	115,743	117,463	38,679
200,034	-	-	(200,034)
325,061	393,968	408,927	83,866
952,298	948,306	1,001,818	49,520
(65,511)	(114,523)	(168,035)	102,524
156,444	-	-	156,444
90,933	(114,523)	(168,035)	258,968
579,228	480,301	578,791	437
670,161	365,778	410,756	259,405

City of Walford

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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. 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 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 \$53,512. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the debt service function.

Other Supplementary Information

City of Walford
Schedule of Indebtedness
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Municipal building	Nov 21, 1994	6.00%	\$ 100,000
Fire station	Jun 15, 2002	5.00	160,000
Total			
General obligation bonds:			
Sewer improvement*	Aug 7, 2003	3.00%	2,430,000

* The agreement also requires the City 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
43,596	-	7,703	35,893	2,502
112,000	-	16,000	96,000	5,600
<u>\$ 155,596</u>	<u>-</u>	<u>23,703</u>	<u>131,893</u>	<u>8,102</u>
<u>\$ 2,103,556</u>	<u>156,444</u>	<u>96,000</u>	<u>2,164,000</u>	<u>66,407</u>

Schedule 2

City of Walford
 Note and Bond Maturities
 June 30, 2006

Year Ending June 30,	General Obligation Notes				Total	General Obligation Bonds	
	Municipal Building		Fire Station			Interest	Amount
	Issued Nov 21, 1994		Issued Jun 15, 2002				
	Interest Rates	Amount	Interest Rates	Amount			
2007	6.00%	\$ 8,172	5.00%	\$ 16,000	24,172	3.00%	\$ 98,000
2008	6.00	8,670	5.00	16,000	24,670	3.00	102,000
2009	6.00	9,198	5.00	16,000	25,198	3.00	104,000
2010	6.00	9,853	5.00	16,000	25,853	3.00	108,000
2011		-	5.00	16,000	16,000	3.00	110,000
2012		-	5.00	16,000	16,000	3.00	114,000
2013		-		-	-	3.00	117,000
2014		-		-	-	3.00	121,000
2015		-		-	-	3.00	124,000
2016		-		-	-	3.00	128,000
2017		-		-	-	3.00	132,000
2018		-		-	-	3.00	136,000
2019		-		-	-	3.00	140,000
2020		-		-	-	3.00	144,000
2021		-		-	-	3.00	148,000
2022		-		-	-	3.00	153,000
2023		-		-	-	3.00	158,000
2024		-		-	-	3.00	27,000
Total		<u>\$ 35,893</u>		<u>\$ 96,000</u>	<u>131,893</u>		<u>\$ 2,164,000</u>

See accompanying independent auditor's report.

**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**

City of Walford



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Walford, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 22, 2007. 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, 2005.

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 Walford's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Walford's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A) and (B) are material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 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.

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 Walford and other parties to whom the City 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 Walford during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 22, 2007

City of Walford

City of Walford

Schedule of Findings

Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

(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. Generally, one person has control over each of the following areas:

- (1) Cash – reconciling bank accounts, initiating cash receipts and disbursement transactions and handling and recording cash.
- (2) Receipts – collecting, depositing, journalizing and posting.
- (3) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (4) Disbursements – purchasing, check signing, recording and reconciling.
- (5) Payroll – preparing and distributing.
- (6) Transfers – recording and reconciling.
- (7) Financial reporting – preparing, reconciling and distributing.
- (8) Accounting system – performing all general accounting functions and having custody of City assets.
- (9) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and date of the review.

Response – The City will consider this. The City will establish a procedure for review of reconciliations by a person other than the City Clerk.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize Council Members to provide additional control through review of financial transactions and reports.

City of Walford

Schedule of Findings

Year ended June 30, 2006

- (B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – The City will establish a procedure for review of reconciliations by a person other than the City Clerk.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Walford

Schedule of Findings

Year ended June 30, 2006

Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 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 accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City concurs. In the future, the City will try to avoid the exceeding budgeted amount or amend the budgeted amount in accordance with Chapter 384.18 of the Iowa Code.

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:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Randy Bauer, Mayor	Snow plowing	\$ 120
Dennis Pieffer, Council Member, Owner of Hwy 151 Car Wash	Car wash tokens	40

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Mayor and Council Member do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

City of Walford

Schedule of Findings

Year ended June 30, 2006

- (8) Payment of General Obligation Bonds – General obligation bond principal and interest totaling \$162,407 were paid from the Special Revenue, Urban Renewal Tax Increment Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, 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, Urban Renewal Tax Increment Fund to the Debt Service Fund for future funding contributions. Bond payments should be made from the Debt Service Fund.

Response – The City concurs. In the future, payments of principal and interest will be disbursed from the Debt Service Fund.

Conclusion – Response accepted.

- (9) Corrective Transfer – Tax increment financing receipts were credited to the Special Revenue, Urban Renewal Tax Increment Fund. At the end of the fiscal year a transfer of \$8,872 was made from the Special Revenue, Urban Renewal Tax Increment Fund to the Enterprise, Sewer Fund for future State Revolving Fund bond payments. Since principal and interest payments should be made from the Debt Service Fund, the transfer should not have been made.

Recommendation – The City should make a corrective transfer of \$8,872 from the Enterprise, Sewer Fund to the Special Revenue, Urban Renewal Tax Increment Fund. In the future, the transfer should be made to the Debt Service Fund to provide for the payment of bond principal and interest to the State Revolving Fund.

Response – The City will make a correction as recommended by resolution on March 5, 2007.

Conclusion – Response accepted.

City of Walford

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager
Daniel L. Grady, Staff Auditor
Adam D. Steffensmeier, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State