

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

JUNE 30, 2007

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City of Walnut

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
LaVonne Wood	Mayor	Jan 2010
Roshelle Stout-Thompson	Council Member	Jan 2008
Larry Kay	Council Member	Jan 2008
Vern Booth	Council Member	Jan 2010
Adrian Griffith	Council Member	Jan 2010
Breck Henningsen	Council Member	Jan 2010
Terri Abel	Clerk	Jan 2008
Dona Grooms	Treasurer	Jan 2008
Richard Schenck	Attorney	Jan 2008

City of Walnut



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

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, 2007, 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.

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, 2006.

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, 2006, 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, 2007, 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 11, during the year ended June 30, 2007, the City adopted 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.

In accordance with Government Auditing Standards, we have also issued our report dated March 6, 2008 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 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.

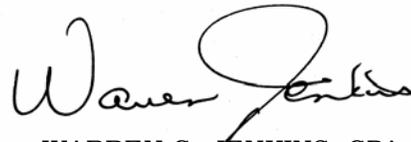
Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, 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 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, 2006, 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

Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

Chief Deputy Auditor of State

March 6, 2008

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, 2007. 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.

2007 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased 8.7%, or approximately \$107,000, due primarily to the City receiving a large bequest for the fire department during the year.
- The cash basis net assets of the City's business type activities decreased 27.9%, or approximately \$68,000, due primarily to preliminary costs for the water treatment plant improvement project started in fiscal year 2007.

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 nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, 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 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 Urban Renewal Tax Increment, Library Memorial and Fire Department Memorial, 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 the water and sewer funds. Internal Service Funds are an accounting device 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.

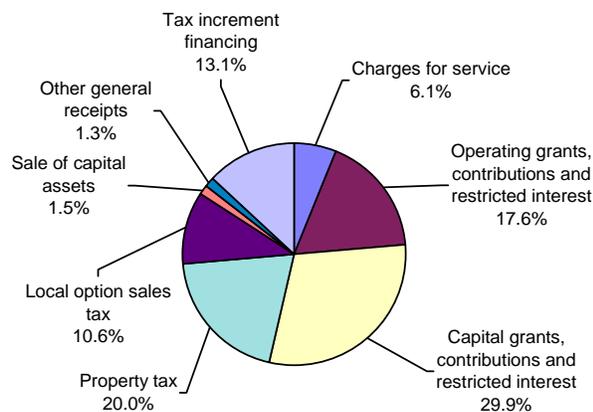
Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

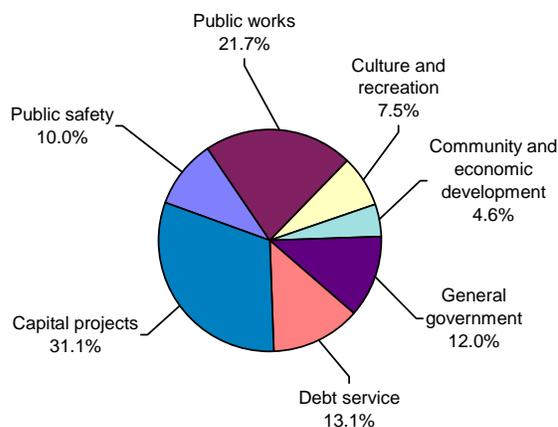
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$1,228,514 to \$1,335,438. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2007
Receipts:	
Program receipts:	
Charges for service	\$ 59,678
Operating grants, contributions and restricted interest	171,998
Capital grants, contributions and restricted interest	292,043
General receipts:	
Property tax	196,153
Tax increment financing	128,297
Local option sales tax	103,207
Sale of capital assets	15,151
Other general receipts	12,931
Total receipts	<u>979,458</u>
Disbursements:	
Public safety	87,630
Public works	189,413
Culture and recreation	65,383
Community and economic development	40,003
General government	104,294
Debt service	114,194
Capital projects	271,617
Total disbursements	<u>872,534</u>
Change in cash basis net assets	106,924
Cash basis net assets beginning of year	<u>1,228,514</u>
Cash basis net assets end of year	<u>\$ 1,335,438</u>

Receipts by Source



Disbursements by Function



The cash basis net assets of the City's governmental activities increased 8.7%, or approximately \$107,000, due primarily to the City receiving a large bequest for the fire department during the year.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2007
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 115,919
Sewer	31,240
General receipts:	
Unrestricted interest on investments	14
Total receipts	<u>147,173</u>
Disbursements:	
Water	185,943
Sewer	29,645
Total disbursements	<u>215,588</u>
Change in cash basis net assets	(68,415)
Cash basis net assets beginning of year	<u>245,337</u>
Cash basis net assets end of year	<u>\$ 176,922</u>

The cash basis net assets of the City's business type activities decreased by 27.9%, or approximately \$68,000, due primarily to preliminary costs for the water treatment plant improvement project started during fiscal year 2007.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Walnut completed the year, its governmental funds reported a combined fund balance of \$1,336,694, an increase of \$108,180 from last year's total of \$1,228,514. 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 \$1,975 from the prior year to \$178,736 at June 30, 2007. The change in fund balance was not considered significant.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$2,805 to \$26,600 at June 30, 2007. The change in fund balance was not considered significant.
- The Special Revenue, Library Memorial Fund cash balance at June 30, 2007 was \$363,067, an increase of \$14,938 over the previous year. The increase was the result of interest on investments and donations which were greater than disbursements during the year.
- The Special Revenue, Fire Department Memorial Fund cash balance increased \$139,658 to \$497,501 at June 30, 2007, primarily as a result of receiving a bequest of \$121,445 during the fiscal year.
- The Debt Service Fund cash balance of \$11,621 did not change during the fiscal year.
- The Capital Projects Fund cash balance decreased \$47,159 to \$135,314 at June 30, 2007 due to the purchase of an ambulance and ballpark lights offset by local option sales tax collections.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$69,382 to \$149,368, due primarily to preliminary costs for the water treatment plant improvement project started during the current fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 3, 2007 and resulted in an increase in disbursements in the culture and recreation and capital projects functions. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$766,817 less than budgeted. This was primarily due to the City budgeting more in intergovernmental receipts for grants that were not received. Also, actual miscellaneous receipts were \$58,974 more than budgeted, mainly due to bequests and donations being greater than anticipated.

With the amendment, total disbursements were \$1,292,197 less than the amended budget. This was primarily due to the City budgeting more in the business type activities function for capital projects which were delayed until fiscal year 2008. However, the actual disbursements for the public safety and debt service functions were \$35,128 and \$114,194, respectively, more than the amended budget. This was primarily due to the City not including the volunteer fire department in the budget and the debt service disbursements were budgeted in the business type activities function.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$368,245 in bonds and other long-term debt outstanding, compared to \$478,061 last year, as shown below.

Outstanding Debt at Year-End	
	June 30, 2007
General obligation note	\$ 205,000
28E agreement	28,012
Urban renewal tax increment revenue bond	135,233
Total	<u>\$ 368,245</u>

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 \$368,245 is significantly below its constitutional debt limit of approximately \$1,627,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates and fees charged for various City activities. The City's fiscal year 2008 assessed value has increased \$429,525 from the fiscal year 2007 level.

The fiscal year 2008 budget contains total receipts and other financing sources of \$2,575,052 and disbursements and other financing uses of \$2,484,811. This budget is higher than the fiscal year 2007 budget which contained total receipts and other financing sources of

\$2,406,222 and disbursements and other financing uses of \$2,217,435. The fiscal year 2008 budget includes an increase of \$427,301 in debt proceeds over the prior year budget due to the water system improvement project.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$82,000 by the close of 2008.

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, City Clerk, 229 Antique City Drive, Walnut, Iowa 51577.

Basic Financial Statements

City of Walnut

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2007

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 87,630	10,933	66,816	-
Public works	189,413	46,078	78,832	-
Culture and recreation	65,383	420	26,350	-
Community and economic development	40,003	465	-	-
General government	104,294	1,782	-	-
Debt service	114,194	-	-	-
Capital projects	271,617	-	-	292,043
Total governmental activities	872,534	59,678	171,998	292,043
Business type activities:				
Water	185,943	115,919	-	-
Sewer	29,645	31,240	-	-
Total business type activities	215,588	147,159	-	-
Total	\$ 1,088,122	206,837	171,998	292,043

General Receipts:

Property and other city tax levied for:
 General purposes
 Tax increment financing
Local option sales tax
Unrestricted interest on investments
Sale of capital assets
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:

 Streets
 Urban renewal purposes
 Debt service
 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
(9,881)	-	(9,881)
(64,503)	-	(64,503)
(38,613)	-	(38,613)
(39,538)	-	(39,538)
(102,512)	-	(102,512)
(114,194)	-	(114,194)
20,426	-	20,426
(348,815)	-	(348,815)
-	(70,024)	(70,024)
-	1,595	1,595
-	(68,429)	(68,429)
(348,815)	(68,429)	(417,244)
196,153	-	196,153
128,297	-	128,297
103,207	-	103,207
1,476	14	1,490
15,151	-	15,151
11,455	-	11,455
455,739	14	455,753
106,924	(68,415)	38,509
1,228,514	245,337	1,473,851
\$ 1,335,438	176,922	1,512,360
\$ 90,208	-	90,208
26,600	-	26,600
11,621	-	11,621
363,067	-	363,067
497,501	-	497,501
167,705	71,807	239,512
178,736	105,115	283,851
\$ 1,335,438	176,922	1,512,360

City of Walnut

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

As of and for the year ended June 30, 2007

	Special Revenue		
	General	Urban Renewal Tax Increment	Library Memorial
Receipts:			
Property tax	\$ 142,359	-	-
Tax increment financing	-	128,297	-
Other city tax	76,336	-	-
Licenses and permits	2,248	-	-
Use of money and property	4,081	-	15,906
Intergovernmental	20,584	-	1,155
Charges for service	57,010	-	-
Miscellaneous	65,922	-	4,608
Total receipts	<u>368,540</u>	<u>128,297</u>	<u>21,669</u>
Disbursements:			
Operating:			
Public safety	85,381	-	-
Public works	94,776	-	-
Culture and recreation	55,808	-	6,731
Community and economic development	28,705	11,298	-
General government	78,627	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>343,297</u>	<u>11,298</u>	<u>6,731</u>
Excess (deficiency) of receipts over (under) disbursements	<u>25,243</u>	<u>116,999</u>	<u>14,938</u>
Other financing sources (uses):			
Sale of capital assets	1,651	-	-
Operating transfers in	-	-	-
Operating transfers out	(28,869)	(114,194)	-
Total other financing sources (uses)	<u>(27,218)</u>	<u>(114,194)</u>	<u>-</u>
Net change in cash balances	(1,975)	2,805	14,938
Cash balances beginning of year	<u>180,711</u>	<u>23,795</u>	<u>348,129</u>
Cash balances end of year	<u>\$ 178,736</u>	<u>26,600</u>	<u>363,067</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	178,736	-	-
Special revenue funds	-	26,600	363,067
Capital projects fund	-	-	-
Total cash basis fund balances	<u>\$ 178,736</u>	<u>26,600</u>	<u>363,067</u>

See notes to financial statements.

Fire Department Memorial	Debt Service	Capital Projects	Nonmajor	Total
-	-	-	49,889	192,248
-	-	-	-	128,297
-	-	29,678	1,098	107,112
-	-	-	-	2,248
18,213	-	4,602	-	42,802
-	-	116,097	73,094	210,930
-	-	-	-	57,010
121,445	-	31,685	-	223,660
139,658	-	182,062	124,081	964,307
-	-	-	2,249	87,630
-	-	-	94,036	188,812
-	-	-	2,844	65,383
-	-	-	-	40,003
-	-	-	25,039	103,666
-	114,194	-	-	114,194
-	-	271,590	-	271,590
-	114,194	271,590	124,168	871,278
139,658	(114,194)	(89,528)	(87)	93,029
-	-	13,500	-	15,151
-	114,194	28,869	-	143,063
-	-	-	-	(143,063)
-	114,194	42,369	-	15,151
139,658	-	(47,159)	(87)	108,180
357,843	11,621	182,473	123,942	1,228,514
497,501	11,621	135,314	123,855	1,336,694
-	11,621	-	-	11,621
-	-	-	-	178,736
497,501	-	-	123,855	1,011,023
-	-	135,314	-	135,314
497,501	11,621	135,314	123,855	1,336,694

City of Walnut

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, 2007

Total governmental funds cash balances (page 17) \$ 1,336,694

***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.

(1,256)

Cash basis net assets of governmental activities (page 15) \$ 1,335,438

Net change in cash balances (page 17) \$ 108,180

***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.

(1,256)

Change in cash basis net assets of governmental activities (page 15) \$ 106,924

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, 2007

	Enterprise			Internal Service
	Water	Nonmajor - Sewer	Total	Employee Health
Operating receipts:				
Charges for service	\$ 114,819	31,240	146,059	4,117
Miscellaneous	1,100	-	1,100	-
Total operating receipts	<u>115,919</u>	<u>31,240</u>	<u>147,159</u>	<u>4,117</u>
Operating disbursements:				
Governmental activities:				
Public works	-	-	-	2,000
General government	-	-	-	2,000
Business type activities	114,169	29,645	143,814	2,000
Total operating disbursements	<u>114,169</u>	<u>29,645</u>	<u>143,814</u>	<u>6,000</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>1,750</u>	<u>1,595</u>	<u>3,345</u>	<u>(1,883)</u>
Non-operating receipts (disbursements):				
Interest on investments	14	-	14	-
Capital asset acquisitions	(71,146)	-	(71,146)	-
Net non-operating receipts (disbursements)	<u>(71,132)</u>	<u>-</u>	<u>(71,132)</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(69,382)</u>	<u>1,595</u>	<u>(67,787)</u>	<u>(1,883)</u>
Cash balances beginning of year	<u>218,750</u>	<u>26,587</u>	<u>245,337</u>	<u>-</u>
Cash balances end of year	<u>\$ 149,368</u>	<u>28,182</u>	<u>177,550</u>	<u>(1,883)</u>
Cash Basis Fund Balances				
Reserved for water improvements	\$ 71,807	-	71,807	-
Unreserved	<u>77,561</u>	<u>28,182</u>	<u>105,743</u>	<u>(1,883)</u>
Total cash basis fund balances	<u>\$ 149,368</u>	<u>28,182</u>	<u>177,550</u>	<u>(1,883)</u>

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, 2007

Total enterprise funds cash balances (page 20) \$ 177,550

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.

(628)

Cash basis net assets of business type activities (page 15)

\$ 176,922

Net change in cash balances (page 20)

\$ (67,787)

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.

(628)

Change in cash basis net assets of business type activities (page 15)

\$ (68,415)

See notes to financial statements.

City of Walnut

Notes to Financial Statements

June 30, 2007

(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. 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: Pottawattamie County Assessor's Conference Board, Pottawattamie County Emergency Management Commission 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 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 Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Library Memorial Fund is used to account for donations and bequests to the Walnut Public Library.

The Fire Department Memorial Fund is used to account for donations and bequests to the Walnut Volunteer Fire Department.

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities.

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.

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, 2007, disbursements exceeded the amounts budgeted in the public safety and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 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, 2007, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Federal Home Loan Bank (FHLB) bond	\$ 20,005	19,581	March 2010
Federal Home Loan Mortgage Corporation (FHLMC) note	30,000	29,058	March 2015
Federal Home Loan Mortgage Corporation (FHLMC) note	18,955	17,879	June 2016
Federal Home Loan Bank (FHLB) bond	50,005	47,063	June 2018
Federal National Mortgage Corporation (FNMA) note	100,000	92,406	March 2025
Total	<u>\$ 218,965</u>	<u>205,987</u>	

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$497,501 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

The City had four certificates of deposit held in depositories outside the State of Iowa. The City's FHLB, FHLMC and FNMA investments at June 30, 2007 are rated AAA or Aaa by Standards & Poors 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 paper and debt rated in the second highest classification. When possible, it is the City's policy to diversify 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 City's investments in FHLB, FHLMC and FNMA are 9.8%, 6.8% and 14.0% of the City's total investments, respectively.

(3) Note Payable

On August 11, 2005, the City entered into a general obligation water improvement note agreement with U.S. Bank totaling \$350,000, at 4.77% per annum interest, to be used for constructing improvements to the municipal waterworks system. The agreement requires quarterly installments of principal and interest of \$11,304 due March 1, June 1, September 1 and December 1 of each year. The City pays in advance of the maturity schedule set at the time the note was sold. During the year ended June 30, 2007, \$114,194, including interest, was paid under this agreement. The principal balance at June 30, 2007 was \$205,000.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 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 contributions to IPERS for the year ended June 30, 2007 was \$7,639, equal to the required contribution for the year.

(5) 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. Sick leave is paid upon retirement or death, at one-third of the total accumulated hours. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2007, primarily relating to the General, Road Use Tax and Water Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 5,000
Sick leave	<u>6,500</u>
Total	<u>\$ 11,500</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

(6) 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. The 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 are insufficient tax increment revenues available on any payment date to make the required scheduled payment, the unpaid amount shall be carried over to the next payment date. During the year ended June 30, 2007, the City paid \$11,298 of incremental property tax under the agreement. The unpaid principal and accrued interest totaled \$135,233 at June 30, 2007.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	\$ 114,194
Capital Projects	General	<u>28,869</u>
		<u>\$ 143,063</u>

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

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$37,120 during the year ended June 30, 2007.

(9) 28E Agreement with Pottawattamie County

On December 15, 2000, the City entered into a 28E agreement with the Pottawattamie County Secondary Roads Department totaling \$93,373 for reconstruction of highway G-16. The City is paying Pottawattamie County over a period of 10 years. During the year ended June 30, 2007, \$9,337 was paid under this agreement. The remaining balance of this agreement at June 30, 2007 was \$28,012.

(10) Risk Management

The City is a member in 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 556 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 300 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. 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, 2007 were \$27,592.

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 and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

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, 2007, 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 \$2,000 per individual for each employee.

(11) 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, 2007. These 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.

(12) Subsequent Events

In September 2007, the City entered into a construction contract totaling \$1,826,000 for a water treatment plant project. In November 2007, the City issued \$270,000 of water revenue bonds and \$1,030,000 of general obligation water bonds to finance the water treatment plant project.

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 Enterprise Funds

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds Actual	Enterprise Funds Actual
Receipts:		
Property tax	\$ 192,248	-
Tax increment financing	128,297	-
Other city tax	107,112	-
Licenses and permits	2,248	-
Use of money and property	42,802	-
Intergovernmental	210,930	-
Charges for service	57,010	146,059
Miscellaneous	223,660	1,114
Total receipts	<u>964,307</u>	<u>147,173</u>
Disbursements:		
Public safety	87,630	-
Public works	188,785	-
Culture and recreation	65,383	-
Community and economic development	40,003	-
General government	103,666	-
Debt service	114,194	-
Capital projects	271,617	-
Business type activities	-	214,960
Total disbursements	<u>871,278</u>	<u>214,960</u>
Excess (deficiency) of receipts over (under) disbursements	93,029	(67,787)
Other financing sources, net	<u>15,151</u>	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	108,180	(67,787)
Balances beginning of year	<u>1,228,514</u>	<u>245,337</u>
Balances end of year	<u>\$ 1,336,694</u>	<u>177,550</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
192,248	193,201	193,201	(953)
128,297	131,562	131,562	(3,265)
107,112	103,953	103,953	3,159
2,248	2,250	2,250	(2)
42,802	10,683	24,183	18,619
210,930	1,024,348	1,024,348	(813,418)
203,069	233,000	233,000	(29,931)
224,774	140,800	165,800	58,974
<u>1,111,480</u>	<u>1,839,797</u>	<u>1,878,297</u>	<u>(766,817)</u>
87,630	52,502	52,502	(35,128)
188,785	216,054	216,054	27,269
65,383	53,122	68,122	2,739
40,003	55,253	55,253	15,250
103,666	125,639	125,639	21,973
114,194	-	-	(114,194)
271,617	277,189	423,189	151,572
214,960	1,437,676	1,437,676	1,222,716
<u>1,086,238</u>	<u>2,217,435</u>	<u>2,378,435</u>	<u>1,292,197</u>
25,242	(377,638)	(500,138)	525,380
15,151	299,545	299,545	(284,394)
40,393	(78,093)	(200,593)	240,986
<u>1,473,851</u>	<u>1,023,061</u>	<u>1,076,267</u>	<u>397,584</u>
<u>1,514,244</u>	<u>944,968</u>	<u>875,674</u>	<u>638,570</u>

City of Walnut

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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 Internal Service 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 nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund 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 \$161,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public safety and debt service functions.

Other Supplementary Information

City of Walnut

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, 2007

	Special Revenue		
	Road Use	Employee	Total
	Tax	Benefits	
Receipts:			
Property tax	\$ -	49,889	49,889
Other city tax	-	1,098	1,098
Intergovernmental	73,094	-	73,094
Total receipts	<u>73,094</u>	<u>50,987</u>	<u>124,081</u>
Disbursements:			
Operating:			
Public safety	-	2,249	2,249
Public works	70,048	23,988	94,036
Culture and recreation	-	2,844	2,844
General government	-	25,039	25,039
Total disbursements	<u>70,048</u>	<u>54,120</u>	<u>124,168</u>
Excess (deficiency) of receipts over (under) disbursements	3,046	(3,133)	(87)
Cash balances beginning of year	87,162	36,780	123,942
Cash balances end of year	<u>\$ 90,208</u>	<u>33,647</u>	<u>123,855</u>

See accompanying independent auditor's report.

City of Walnut
Schedule of Indebtedness
Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation note: Water improvement	Aug 11, 2005	4.77%	\$ 350,000
28E agreement: Street reconstruction	Dec 15, 2000	None	\$ 93,373
Urban renewal tax increment revenue bond	Apr 3, 1997	8.00%	\$ 95,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
305,000	-	100,000	205,000	14,194
37,349	-	9,337	28,012	-
135,712	-	479	135,233	10,819

City of Walnut



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 Walnut, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 6, 2008. 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, 2006. 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 our opinion on the effectiveness of the City'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

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

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

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

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 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, 2007 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. 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 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

March 6, 2008

City of Walnut

Schedule of Findings

Year ended June 30, 2007

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The Library Memorial Fund and Fire Department Memorial Fund cash receipts listing, bank deposits and posting cash receipts to the cash receipts journal are all performed by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Library Board and Fire Department should review control procedures to obtain the maximum internal control possible under the circumstances.

Response – We understand this and will discuss the recommendations with the Library and Fire Department officials.

Conclusion – Response accepted.

- (B) Records of Accounts – The City maintains a separate bank account for the Fire Department. The financial transactions and the resulting balance were not included in the City's accounting records and were not included in the City's annual budget or annual financial report. However, the financial transactions and the resulting balance are included in these financial statements.

In addition, the City maintains separate bank accounts and investments for Library memorials. Although the financial transactions and balances of the Library accounts are included in the Clerk's monthly reports, they are not included in the City's annual budget or annual financial report. However, the financial transactions and the resulting balances are included in these financial statements.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's monthly financial reports, annual budget and annual financial report.

Response – We will discuss this with the Fire Department and include the transactions and balances in the City records in the future. Beginning in fiscal 2008, we are including the Library activity in the City's budget.

Conclusion – Response accepted.

City of Walnut

Schedule of Findings

Year ended June 30, 2007

- (C) Financial Reporting – Local option sales tax was erroneously credited to the General Fund rather than the Capital Projects Fund. Although the referendum states the tax should be allocated 10% for property tax relief (General Fund) and 90% for infrastructure (Capital Projects Fund), the City initially allocated 90% to the General Fund and 10% to the Capital Projects Fund. The City misallocated the tax in the same manner for fiscal years 2003 through 2006.

The City subsequently determined the total excess local option sales tax collections credited to the General Fund was \$65,624. The City calculated the excess by subtracting the total of qualifying infrastructure disbursements made by the City from the difference between distributing 90% versus 10% of the tax to the General Fund. Adjustments were subsequently made to the City's financial statements to properly record the local option sales tax.

Recommendation – The City should implement procedures to ensure the accuracy of the distribution of local option sales tax in accordance with the purposes outlined in the referendum.

Response – The City will implement procedures to credit 10% of the local option sales tax receipts to the General Fund and 90% to the Capital Projects Fund.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Walnut
 Schedule of Findings
 Year ended June 30, 2007

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the public safety and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The public safety budget overage was caused by the Fire Department disbursements which were not included in the budget. We budgeted for the debt service disbursements in the wrong function. We will budget properly in the future.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

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

Name, Title, and Business Connection	Transaction Description	Amount
LaVonne Wood, Mayor, spouse of Herb Wood	Garbage/recycling hauling and dumpster rent	\$ 37,120

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Mayor’s spouse may represent a conflict of interest since the total transactions were more than \$1,500 during the fiscal year and were not bid.

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

Response – We will consult legal counsel and will take competitive bids for this in the future.

Conclusion – Response accepted.

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

City of Walnut

Schedule of Findings

Year ended June 30, 2007

(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 – The City Library had four certificates of deposit held in depositories outside the State. Chapter 12C of the Code of Iowa requires City deposits be held in depositories located in the County in which the City is located or in an adjoining County, but if there is no depository in the County in which the City is located or in an adjoining County, then in any other depository located in this State which shall be selected as a depository by the City Council.

Recommendation – The City should only deposit funds in allowable depositories.

Response – We will discuss this with the Library and have them invest in allowable certificates of deposit or other allowable investments.

Conclusion – Response accepted.

(8) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows retention of cancelled checks in an electronic format but requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – The City has discussed obtaining an image of both the front and back of each cancelled check with the local bank. Once obtained, the City will retain the copies as recommended.

Conclusion – Response accepted.

(9) Annual Financial Report – Although the City's beginning and ending balances and total receipts and disbursements were reported correctly, the classification of certain governmental fund receipts and disbursements in the City's annual financial report did not agree with the City's revenue and expenditure guidelines. In addition and as noted previously, the annual financial report excluded the City's separately maintained accounts for the Fire Department and Library Memorials.

Recommendation – In the future, the City should properly classify receipts and disbursements and include all City accounts in the annual financial report.

Response – The City will make an effort to properly classify receipts and disbursements in the City's annual financial report and the annual report will include the City's separately maintained accounts for the Fire Department and Library Memorials.

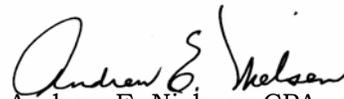
Conclusion – Response accepted.

City of Walnut

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Paul F. Kearney, CGFM, Senior Auditor
Sharon K. Stickrod, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State