



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE April 2, 2003

Contact: Andy Nielsen
515/281-5515

The Office of Auditor of State today released an audit report on the City of Walnut, Iowa.

The City's receipts totaled \$876,164 for the year ended June 30, 2002. The receipts included \$130,482 in property tax, \$182,783 in tax increment financing collections, \$82,111 from the state, \$80,048 from the federal government, \$195,388 in charges for service and \$8,968 in interest on investments. The City also received proceeds of \$400,000 from the issuance of general obligation notes that are reported as an other financing source.

Disbursements for the year totaled \$950,730, and included \$118,928 for community protection, \$30,813 for human development, \$699,726 for home and community environment and \$101,263 for policy and administration.

This report contains recommendations to the City Council and other City officials. For example, duties among employees should be segregated to prevent individual employees from handling duties which are incompatible. The City responded to each item in the report and stated that corrective action is being taken.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.

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CITY OF WALNUT
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2002

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City of Walnut

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2002)		
Elwyn Ferry	Mayor	Jan 2002
Vernon Booth	Council Member	Jan 2002
David Burgess	Council Member	Jan 2002
Darren Tooley (Appointed)	Council Member	Jan 2002
Larry Shepherd	Council Member	Jan 2004
LaVonne Wood	Council Member	Jan 2004
Terri Abel	Clerk	Jan 2002
Dona Grooms	Treasurer	Jan 2002
Richard Schenck	Attorney	Jan 2002
(After January 2002)		
Elwyn Ferry	Mayor	Jan 2004
Larry Shepherd	Council Member	Jan 2004
LaVonne Wood	Council Member	Jan 2004
Vernon Booth	Council Member	Jan 2006
Edward Ransom	Council Member	Jan 2006
Darren Tooley	Council Member	Jan 2006
Terri Abel	Clerk	Jan 2004
Dona Grooms	Treasurer	Jan 2004
Richard Schenck	Attorney	Jan 2004

City of Walnut



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of Walnut, Iowa, as of and for the year ended June 30, 2002. These financial statements are the responsibility of the City of Walnut's management. Our responsibility is to express an opinion 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 that our audit provides a reasonable basis for our opinion.

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, 2001.

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, 2001, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Walnut as of and for the year ended June 30, 2002, and its indebtedness at June 30, 2002, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 27, 2003 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 grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

January 27, 2003, except for Note 9 to
the financial statements and Item 9
in the Schedule of Findings, as to
which the date is February 28, 2003

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

City of Walnut

Financial Statements

City of Walnut
 Combined Statement of Cash Transactions
 All Fund Types
 Year ended June 30, 2002

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Receipts:			
Property tax	\$ 101,296	29,186	-
Tax increment financing collections	-	182,783	-
Other city tax	10,956	-	-
Licenses and permits	2,554	-	-
Use of money and property	16,554	1,407	-
Intergovernmental	33,276	64,114	-
Charges for service	55,069	-	-
Miscellaneous	27,834	46,851	-
Total receipts	<u>247,539</u>	<u>324,341</u>	<u>-</u>
Disbursements:			
Community Protection Program	57,954	60,974	-
Human Development Program	27,317	1,525	-
Home and Community Environment Program	81,456	50,520	122,820
Policy and Administration Program	86,463	14,573	-
Total disbursements	<u>253,190</u>	<u>127,592</u>	<u>122,820</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(5,651)</u>	<u>196,749</u>	<u>(122,820)</u>
Other financing sources (uses):			
General obligation note proceeds	-	-	-
Operating transfers in	26,399	-	122,820
Operating transfers out	(19,437)	(129,782)	-
Total other financing sources (uses)	<u>6,962</u>	<u>(129,782)</u>	<u>122,820</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>1,311</u>	<u>66,967</u>	<u>-</u>
Balance beginning of year	<u>182,409</u>	<u>124,625</u>	<u>11,621</u>
Balance end of year	<u>\$ 183,720</u>	<u>191,592</u>	<u>11,621</u>

See notes to financial statements.

Capital Projects	Proprietary Fund Types Enterprise	Fiduciary Fund Type Trust Funds	Total (Memorandum Only)
-	-	-	130,482
-	-	-	182,783
70,090	-	-	81,046
-	-	-	2,554
-	37	44	18,042
80,048	-	1,261	178,699
-	140,319	-	195,388
2,639	9,065	781	87,170
152,777	149,421	2,086	876,164
-	-	-	118,928
585	-	1,386	30,813
279,026	165,904	-	699,726
227	-	-	101,263
279,838	165,904	1,386	950,730
(127,061)	(16,483)	700	(74,566)
400,000	-	-	400,000
15,000	-	-	164,219
(15,000)	-	-	(164,219)
400,000	-	-	400,000
272,939	(16,483)	700	325,434
21,528	87,157	4,236	431,576
294,467	70,674	4,936	757,010

City of Walnut

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget

Year ended June 30, 2002

	Actual	Less Funds not Required to be Budgeted
Receipts:		
Property tax	\$ 130,482	-
Tax increment financing collections	182,783	-
Other city tax	81,046	-
Licenses and permits	2,554	-
Use of money and property	18,042	1,407
Intergovernmental	178,699	-
Charges for service	195,388	-
Miscellaneous	87,170	46,851
Total receipts	876,164	48,258
Disbursements:		
Community Protection Program	118,928	48,346
Human Development Program	30,813	-
Home and Community Environment Program	699,726	-
Policy and Administration Program	101,263	-
Total disbursements	950,730	48,346
Deficiency of receipts under disbursements	(74,566)	(88)
Other financing sources, net	400,000	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	325,434	(88)
Balance beginning of year	431,576	35,103
Balance end of year	\$ 757,010	35,015

See notes to financial statements.

Net	Amended Budget	Variance Favorable (Unfavorable)	Net as % of Amended Budget
130,482	125,084	5,398	104%
182,783	195,858	(13,075)	93%
81,046	91,997	(10,951)	88%
2,554	1,450	1,104	176%
16,635	12,000	4,635	139%
178,699	110,960	67,739	161%
195,388	824,150	(628,762)	24%
40,319	39,700	619	102%
<u>827,906</u>	<u>1,401,199</u>	<u>(573,293)</u>	<u>59%</u>
70,582	83,821	13,239	84%
30,813	48,709	17,896	63%
699,726	1,150,646	450,920	61%
101,263	116,929	15,666	87%
<u>902,384</u>	<u>1,400,105</u>	<u>497,721</u>	<u>64%</u>
(74,478)	1,094		
<u>400,000</u>	-		
325,522	1,094		
<u>396,473</u>	<u>392,011</u>		
<u>721,995</u>	<u>393,105</u>		

City of Walnut
Statement of Indebtedness
Year ended June 30, 2002

Obligation	Date of Issue	Interest Rates
General obligation notes:		
Sewer improvement	Dec 13, 1996	5.25%
Water tower	May 6, 2002	4.35
Total		

See notes to financial statements.

	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$	475,000	117,138	-	117,138	-	5,682
	400,000	-	400,000	-	400,000	-
		<u>\$ 117,138</u>	<u>400,000</u>	<u>117,138</u>	<u>400,000</u>	<u>5,682</u>

City of Walnut

Notes to Financial Statements

June 30, 2002

(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, culture, recreation, public improvements and general administrative services.

A. Reporting Entity

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

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

Blended Component Unit

The following component unit is an entity which is legally separate from the City, but is so intertwined with the City that it is, in substance, part of the City. The financial activities of the component unit are reflected in this report as a Special Revenue Fund.

The Walnut Volunteer Fire Department (Department) was established by ordinance and has adopted its own constitution and bylaws as required by the ordinance. Although the Department is legally separate from the City, its purpose is to benefit the City of Walnut (the primary government) by collecting donations which are used to purchase items which are not included in the City's budget.

Jointly Governed Organizations

The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following board and commission: Pottawattamie County Assessor's Conference Board and Pottawattamie County Emergency Management Commission.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and fund balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are 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 that are not paid through other funds.

Special Revenue Funds - The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

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

Capital Projects Funds - The Capital Projects Funds are utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through Enterprise Funds.

Proprietary Funds

Enterprise Funds - The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Fiduciary Fund

Trust Fund - The Expendable Trust Fund is utilized to account for monies and properties received and held by the City in a trustee capacity.

C. Basis of Accounting

The City of Walnut 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.

D. Budgets and Budgetary Accounting

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 blended component units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon four major classes of disbursements, known as programs, not by fund. These four programs are community protection, human development, home and community environment and policy and administration.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Deposits

The City's deposits in banks at June 30, 2002 were entirely covered by federal depository insurance or 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.

(3) Notes Payable

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

Year Ending June 30,	General Obligation Water Tower Notes	
	Principal	Interest
2003	\$ 18,200	18,366
2004	20,240	16,326
2005	21,180	15,386
2006	22,116	14,450
2007	23,094	13,472
2008	24,081	12,485
2009	25,180	11,386
2010	26,293	10,272
2011	27,456	9,110
2012	28,649	7,917
2013	29,937	6,629
2014	31,260	5,306
2015	32,643	3,923
2016	34,079	2,487
2017	35,592	973
Total	\$ 400,000	148,488

(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.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2002 was \$5,760, equal to the required contribution.

(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. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2002, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 4,100
Sick leave	9,300
Total	<u>\$ 13,400</u>

This liability has been computed based on rates of pay in effect at June 30, 2002.

Sick leave is payable when used or upon retirement or death. If paid upon retirement or death, the total accumulated hours are paid at one-third of the then effective hourly rate for that employee. Based on this computation, the minimum accumulated sick leave approximates \$4,500 at June 30, 2002.

(6) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 384.12 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 400 members from 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 expense 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 sufficient, 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 annual contribution to the Pool for the year ended June 30, 2002 were \$17,011.

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 \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks, including automobile physical damage, are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that 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 that a series of casualty claims exhaust 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.

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 other insurers for coverage associated with workers 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.

(7) Development Agreement

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. The City agreed to rebate incremental taxes in exchange for infrastructure improvements constructed by the developer as set forth in the urban renewal plan. The incremental taxes to be received by the City will be rebated to the developer beginning December 1, 1999 and continuing through fiscal year 2014 until the principal of \$95,000 and interest at the rate of 8.5% per annum have been repaid.

No bonds or notes will be issued for this construction project. To the extent that on any payment date there are insufficient tax increment revenues available to make the required scheduled payment, the unpaid amount shall be carried over to the next

payment date. During the year ended June 30, 2002, the City rebated \$724 of incremental taxes under the agreement. The unpaid principal and accrued interest totaled \$106,704 at June 30, 2002.

(8) Construction Contract

The City has entered into a construction contract to erect a water tower. The construction commitment at June 30, 2002 totaled \$341,681 and will be paid using proceeds from general obligation notes, community development block grant funds and through tax increment financing revenues as construction progresses.

(9) Library Memorial Trust Fund Theft

As more fully described in Item 9 of the Schedule of Findings, \$1,267.18 was misappropriated from the Library Memorial Trust Fund. The City has agreed to a restitution plan, of which \$600 has been recovered through February 2003.

City of Walnut

Supplemental Information

City of Walnut
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	General	Library	City Equipment
Receipts:			
Property tax	\$ 83,296	18,000	-
Other city tax:			
Cable franchise fee	632	-	-
Utility tax replacement excise tax	2,536	-	-
Local option sales tax	7,788	-	-
	<u>10,956</u>	-	-
Licenses and permits	<u>2,554</u>	-	-
Use of money and property:			
Interest on investments	3,794	-	-
Rent	9,074	-	-
	<u>12,868</u>	-	-
Intergovernmental:			
State allocation	10,593	-	-
Bank franchise tax	933	-	-
Underground storage tank grant	5,210	-	-
County contributions	-	4,631	-
Fire contracts	11,909	-	-
	<u>28,645</u>	<u>4,631</u>	-
Charges for service:			
Ambulance fees	9,136	-	-
Garbage fees	45,933	-	-
	<u>55,069</u>	-	-
Miscellaneous:			
Refunds and reimbursements	5,653	894	-
Donations and contributions	-	10,950	-
Miscellaneous	9,088	3	-
	<u>14,741</u>	<u>11,847</u>	-
Total receipts	<u>208,129</u>	<u>34,478</u>	-

Fire Equipment	Fire Building	Ambulance Trust	Total
-	-	-	101,296
-	-	-	632
-	-	-	2,536
-	-	-	7,788
-	-	-	10,956
-	-	-	2,554
1,587	-	2,099	7,480
-	-	-	9,074
1,587	-	2,099	16,554
-	-	-	10,593
-	-	-	933
-	-	-	5,210
-	-	-	4,631
-	-	-	11,909
-	-	-	33,276
-	-	-	9,136
-	-	-	45,933
-	-	-	55,069
-	-	-	6,547
-	1,246	-	12,196
-	-	-	9,091
-	1,246	-	27,834
1,587	1,246	2,099	247,539

City of Walnut
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	General	Library	City Equipment
Disbursements:			
Community Protection Program:			
Police:			
Contractual services	32,868	-	-
Fire:			
Contractual services	9,687	-	-
Commodities	7,301	-	-
Capital outlay	-	-	-
	<u>16,988</u>	-	-
Ambulance:			
Contractual services	1,199	-	-
Commodities	3,221	-	-
	<u>4,420</u>	-	-
Street lighting	1,590	-	-
Animal control	285	-	-
	<u>56,151</u>	-	-
Human Development Program:			
Library:			
Personal services	-	10,494	-
Contractual services	-	2,893	-
Commodities	-	3,225	-
	-	<u>16,612</u>	-
Parks:			
Contractual services	6,065	-	-
Capital outlay	4,640	-	-
	<u>10,705</u>	-	-
	<u>10,705</u>	16,612	-

Fire Equipment	Fire Building	Ambulance Trust	Total
-	-	-	32,868
-	-	-	9,687
-	-	-	7,301
-	1,803	-	1,803
-	1,803	-	18,791
-	-	-	1,199
-	-	-	3,221
-	-	-	4,420
-	-	-	1,590
-	-	-	285
-	1,803	-	57,954
-	-	-	10,494
-	-	-	2,893
-	-	-	3,225
-	-	-	16,612
-	-	-	6,065
-	-	-	4,640
-	-	-	10,705
-	-	-	27,317

City of Walnut
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	General	Library	City Equipment
Disbursements (continued):			
Home and Community Environment Program:			
Solid Waste:			
Contractual services	57,770	-	-
Street:			
Contractual services	4,335	-	-
Commodities	17,401	-	-
Capital outlay	-	-	1,950
	<u>21,736</u>	-	<u>1,950</u>
	<u>79,506</u>	-	<u>1,950</u>
Policy and Administration Program:			
Personal services	33,860	-	-
Contractual services	44,827	-	-
Commodities	7,776	-	-
	<u>86,463</u>	-	-
Total disbursements	<u>232,825</u>	<u>16,612</u>	<u>1,950</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(24,696)</u>	<u>17,866</u>	<u>(1,950)</u>
Other financing sources (uses):			
Operating transfers in (out):			
General:			
General	-	-	10,000
City Equipment	(10,000)	-	-
Fire Equipment	(2,908)	-	-
Ambulance Trust	(6,529)	-	-
Special Revenue:			
Tax Increment Financing	6,962	-	-
Total other financing sources (uses)	<u>(12,475)</u>	-	<u>10,000</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>(37,171)</u>	<u>17,866</u>	<u>8,050</u>
Balance beginning of year	<u>110,729</u>	<u>2,217</u>	<u>5,140</u>
Balance end of year	<u>\$ 73,558</u>	<u>20,083</u>	<u>13,190</u>

See accompanying independent auditor's report.

Fire Equipment	Fire Building	Ambulance Trust	Total
-	-	-	57,770
-	-	-	4,335
-	-	-	17,401
-	-	-	1,950
-	-	-	23,686
-	-	-	81,456
-	-	-	33,860
-	-	-	44,827
-	-	-	7,776
-	-	-	86,463
-	1,803	-	253,190
1,587	(557)	2,099	(5,651)
2,908	-	6,529	19,437
-	-	-	(10,000)
-	-	-	(2,908)
-	-	-	(6,529)
-	-	-	6,962
2,908	-	6,529	6,962
4,495	(557)	8,628	1,311
22,443	4,103	37,777	182,409
26,938	3,546	46,405	183,720

City of Walnut
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2002

	Road Use Tax	Employee Benefits
Receipts:		
Property tax	\$ -	29,186
Tax increment financing collections	-	-
Use of money and property:		
Interest on investments	-	-
Intergovernmental:		
Road use tax allocation	64,114	-
Miscellaneous:		
Donations and contributions	-	-
Total receipts	64,114	29,186
Disbursements:		
Community Protection Program:		
Personal services	-	1,021
Commodities	-	-
Capital outlay	-	-
Contractual services	11,607	-
	11,607	1,021
Human Development Program:		
Personal services	-	1,525
Home and Community Environment Program:		
Personal services	25,195	14,096
Contractual services	-	-
Capital outlay	10,505	-
	35,700	14,096
Policy and Administration Program:		
Personal services	-	14,573
Total disbursements	47,307	31,215
Excess (deficiency) of receipts over (under) disbursements	16,807	(2,029)
Other financing uses:		
Operating transfers out:		
General:		
General	-	-
Debt Service	-	-
Total other financing uses	-	-
Excess (deficiency) of receipts over (under) disbursements and other financing uses	16,807	(2,029)
Balance beginning of year	45,942	25,193
Balance end of year	\$ 62,749	23,164

See accompanying independent auditor's report.

Tax Increment Financing	TIF-Ransom Development	Volunteer Fire Department	Total
-	-	-	29,186
182,059	724	-	182,783
-	-	1,407	1,407
-	-	-	64,114
-	-	46,851	46,851
182,059	724	48,258	324,341
-	-	-	1,021
-	-	21,002	21,002
-	-	27,344	27,344
-	-	-	11,607
-	-	48,346	60,974
-	-	-	1,525
-	-	-	39,291
-	724	-	724
-	-	-	10,505
-	724	-	50,520
-	-	-	14,573
-	724	48,346	127,592
182,059	-	(88)	196,749
(6,962)	-	-	(6,962)
(122,820)	-	-	(122,820)
(129,782)	-	-	(129,782)
52,277	-	(88)	66,967
18,387	-	35,103	124,625
70,664	-	35,015	191,592

Schedule 3

City of Walnut
Schedule of Cash Transactions
Debt Service Fund
Year ended June 30, 2002

Receipts:	
None	<u>\$ -</u>
Disbursements:	
Home and Community Environment Program:	
Debt service:	
Principal redemption	117,138
Interest payments	<u>5,682</u>
Total disbursements	<u>122,820</u>
Deficiency of receipts under disbursements	(122,820)
Other financing sources:	
Operating transfers in:	
Special Revenue:	
Tax Increment Financing	<u>122,820</u>
Excess of receipts and other financing sources over disbursements	-
Balance beginning of year	<u>11,621</u>
Balance end of year	<u>\$ 11,621</u>

See accompanying independent auditor's report.

City of Walnut

City of Walnut
Combining Schedule of Cash Transactions
Capital Projects Funds
Year ended June 30, 2002

	Wetlands Project	Sign Project
Receipts:		
Other city tax:		
Local option sales tax	\$ -	-
Intergovernmental:		
Community Development Block Grant	-	-
Miscellaneous:		
Sales tax refund	-	-
Contributions	-	-
Total receipts	-	-
Disbursements:		
Human Development Program:		
Contractual services	585	-
Home and Community Environment Program:		
Contractual services	-	-
Commodities	-	-
Capital outlay	-	-
Policy and Administration Program:		
Contractual services	-	227
Total disbursements	585	227
Excess (deficiency) of receipts over (under) disbursements	(585)	(227)
Other financing sources (uses):		
General obligation note proceeds	-	-
Operating transfers in (out):		
Capital Projects:		
Local Option Sales Tax Capital Improvement	-	-
Street Improvement Project	-	-
Total other financing sources (uses)	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(585)	(227)
Balance beginning of year	4,248	227
Balance end of year	\$ 3,663	-

See accompanying independent auditor's report.

Local Option Sales Tax Capital Improvement	Street Improvement Project	CDBG Water Tower	Total
70,090	-	-	70,090
-	-	80,048	80,048
2,224	-	-	2,224
-	415	-	415
2,224	415	-	2,639
72,314	415	80,048	152,777
-	-	-	585
68,181	10,715	50,779	129,675
-	-	9,082	9,082
-	-	140,269	140,269
68,181	10,715	200,130	279,026
-	-	-	227
68,181	10,715	200,130	279,838
4,133	(10,300)	(120,082)	(127,061)
-	-	400,000	400,000
-	15,000	-	15,000
(15,000)	-	-	(15,000)
(15,000)	15,000	400,000	400,000
(10,867)	4,700	279,918	272,939
16,870	183	-	21,528
6,003	4,883	279,918	294,467

Schedule 5

City of Walnut
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2002

	Water	Water Deposit	Sewer Rental	Total
Receipts:				
Use of money and property:				
Interest on investments	\$ -	37	-	37
Charges for service:				
Sale of water	109,854	-	-	109,854
Sewer rental fees	-	-	30,465	30,465
	<u>109,854</u>	<u>-</u>	<u>30,465</u>	<u>140,319</u>
Miscellaneous:				
Permits	150	-	125	275
Customer deposits	-	1,200	-	1,200
Miscellaneous	5,503	-	2,087	7,590
	<u>5,653</u>	<u>1,200</u>	<u>2,212</u>	<u>9,065</u>
Total receipts	<u>115,507</u>	<u>1,237</u>	<u>32,677</u>	<u>149,421</u>
Disbursements:				
Home and Community Environment Program:				
Utility operations:				
Personal services	24,253	-	8,423	32,676
Employee benefits	13,139	-	1,258	14,397
Contractual services	27,392	1,350	12,786	41,528
Commodities	53,576	-	23,727	77,303
Total disbursements	<u>118,360</u>	<u>1,350</u>	<u>46,194</u>	<u>165,904</u>
Deficiency of receipts under disbursements	(2,853)	(113)	(13,517)	(16,483)
Balance beginning of year	<u>66,139</u>	<u>3,890</u>	<u>17,128</u>	<u>87,157</u>
Balance end of year	<u>\$ 63,286</u>	<u>3,777</u>	<u>3,611</u>	<u>70,674</u>

See accompanying independent auditor's report.

City of Walnut
 Schedule of Cash Transactions
 Trust Fund
 Year ended June 30, 2002

	Expendable Trust Library Memorial
Receipts:	
Use of money and property:	
Interest on investments	\$ 44
Intergovernmental:	
Enrich Iowa grant	264
Open access grant	997
	1,261
Miscellaneous:	
Reimbursements	581
Donations	200
	781
Total receipts	2,086
Disbursements:	
Human Development Program:	
Commodities	374
Capital outlay	1,012
Total disbursements	1,386
Excess of receipts over disbursements	700
Balance beginning of year	4,236
Balance end of year	\$ 4,936

See accompanying independent auditor's report.

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 on Compliance
and on Internal Control over Financial Reporting**

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Walnut, Iowa, as of and for the year ended June 30, 2002, and have issued our report thereon dated January 27, 2003. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2001.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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 and contracts and grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City of Walnut's operations for the year ended June 30, 2002 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. Prior audit statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Walnut's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 Walnut'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 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 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, we believe that item (A) is a material weakness. This prior audit reportable condition has not been resolved.

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.

January 27, 2003, except for Note 9 to the financial statements and Item 9 in the Schedule of Findings, as to which the date is February 28, 2003

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

City of Walnut
Schedule of Findings
Year ended June 30, 2002

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

(A) Segregation of Duties - One important aspect of internal accounting 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. One individual can have control over one or more of the following areas:

- 1) Receipts - collecting, listing, depositing and posting.
- 2) Utility receipts - preparation, collecting, depositing, posting, and reconciling.
- 3) Library Memorial Trust Fund - receipt listing, depositing, disbursement processing and reconciling bank accounts.

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

Response - We plan to have an assistant to the Clerk, which will improve segregation of duties.

Conclusion - Response accepted.

City of Walnut
 Schedule of Findings
 Year ended June 30, 2002

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2002.
- (2) Certified Budget – Disbursements during the year ended June 30, 2002 did not exceed the amounts budgeted.
- (3) Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Edward Ransom, Council Member, Owner of Ransom Development	TIF revenue rebated after election to City Council	\$ 360
LaVonne Wood, Council Member, Owner of Walnut Sanitation	Garbage/recycling hauling, contracted, per bid Dumpster rent, tire pickup, not bid	31,320 1,250

In accordance with Chapter 362.5(4) and 362.5(11) of the Code of Iowa, the above transactions with the Council Members do not appear to represent a conflict of interest since the hauling fees were competitively bid and the other transactions were less than \$1,500 per individual during the year.

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

City of Walnut

Schedule of Findings

Year ended June 30, 2002

- (9) Library Memorial Trust Fund Theft - A former librarian had access to library fines and State of Iowa warrants received for library programs in the Library Memorial Trust Fund. She also compiled library bills to be approved by the Library Board for submittal to the City for payment. A State of Iowa warrant for the Enrich Iowa grant for \$585, dated October 3, 2000, was endorsed by the former librarian, but was not deposited in a City bank account. The Library Board subsequently reviewed bills that had been submitted for payment by the former librarian from the Library Memorial Trust Fund and found that they included items that were identified as personal. The total misappropriation identified by the Library Board was \$1,267.18.

The Library Board subsequently requested the former librarian's resignation and established a monthly repayment schedule. The former librarian resigned in September 2001, and began making monthly payments to the Library in March 2002. A total of \$600 has been recovered through February 2003.

We reviewed the Library Board's documentation supporting the amount of identified misappropriated funds and conducted a search for additional State of Iowa warrants not deposited appropriately to City bank accounts. No additional misappropriated funds were identified.

Recommendation - The Library Board should review bills submitted for payment, require timely deposit of all funds received, and monitor repayments from the former librarian to recover the identified misappropriated funds.

Response - The Library Board will review and monitor more closely all receipts and all expenditures. The Library Board will also monitor repayments from the former librarian to recover the misappropriated funds.

Conclusion - Response acknowledged. As previously noted in item (A), the Library Board should also review its operating procedures to obtain the maximum internal control possible under the circumstances for the Library Memorial Trust Fund.

City of Walnut

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager
Paul F. Kearney, CGFM, Senior Auditor
Scott D. Bantz, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State