



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ March 18, 2005

Contact: Andy Nielsen
515/281-5834

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

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$2,115,745 for the year ended June 30, 2004. The receipts included \$491,863 in property tax, \$499,235 from tax increment financing, \$530,932 from charges for service, \$184,253 from local option sales tax, \$32,217 from unrestricted interest on investments and \$377,245 from other general receipts.

Disbursements for the year totaled \$2,314,210, and included \$657,775 for capital projects, \$510,018 for public safety and \$259,688 for debt service. Also, disbursements for business type activities totaled \$367,867.

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

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

JUNE 30, 2004

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City of Walcott

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Reed Hagen	Mayor	Jan 2006
Kristal Koberg-Schaefer	Mayor Pro tem	Jan 2006
Jim Couper (Appointed)	Council Member	Nov 2003
Gary Holdorf	Council Member	Jan 2004
Dan Wieland	Council Member	Jan 2004
Ken Washburn	Council Member	Jan 2006
Lisa Rickertsen	Clerk/Treasurer	Jan 2004
Jackie Huston	Deputy Clerk	Indefinite
Thomas Schirman	Attorney	Indefinite
(After January 2004)		
Rosemary Jones	Mayor	Jan 2006
Kristal Koberg-Schaefer	Mayor Pro tem	Jan 2006
Stephanie Drummond (Appointed)	Council Member	Nov 2005
Ken Washburn	Council Member	Jan 2006
Gary Holdorf	Council Member	Jan 2008
Dan Wieland	Council Member	Deceased
Jim Couper	Council Member	Jan 2008
Lisa Rickertsen	Clerk/Treasurer	Jan 2006
Jackie Huston	Deputy Clerk	Indefinite
Thomas Schirman	Attorney	Indefinite

City of Walcott



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Walcott, Iowa, as of and for the year ended June 30, 2004, 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 Walcott'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, 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 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, 2003.

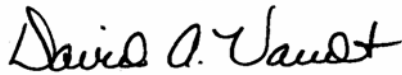
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003, as discussed in the preceding paragraph, the financial statements referred to above present 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 Walcott as of June 30, 2004, 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 10, during the year ended June 30, 2004, 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 October 27, 2004 on our consideration of the City of Walcott'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.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 26 through 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Walcott's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 27, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Walcott 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, 2004. 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, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental funds increased 3.3%, or \$52,221, from fiscal 2003 to fiscal 2004. Tax increment financing (TIF) receipts increased \$34,518 and intergovernmental receipts increased \$10,806.
- Governmental funds disbursements increased 27.2%, or \$416,029, in fiscal 2004 from fiscal 2003. Public safety and capital projects disbursements increased \$107,387 and \$634,513, respectively. Public works decreased \$353,203 due to street projects in fiscal 2003.
- The City's total cash basis net assets decreased \$198,465 from June 30 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased \$250,460 and the assets of the business type activities increased by \$51,995.

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.

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, the reader 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 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 water, garbage and sanitary sewer systems. These activities are financed primarily by user fees and related 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 Local Option Sales Tax and North Tax Increment Financing, 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.

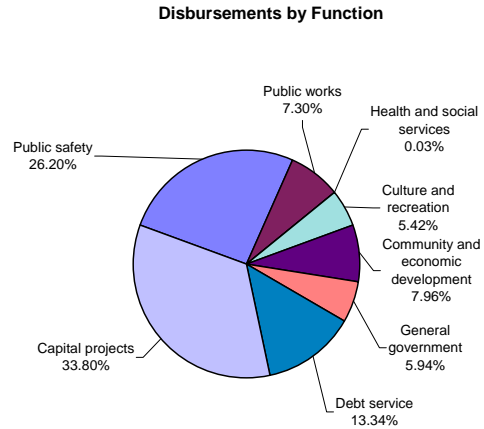
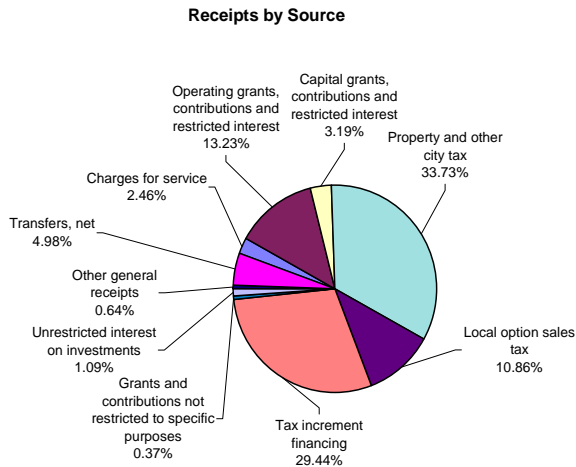
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City, and the Garbage Fund.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased \$250,460 from a year ago. The analysis that follows focuses on the changes in cash balances for governmental activities.

<u>Changes in Cash Basis Net Assets of Governmental Activities</u>	
	<u>Year ended June 30, 2004</u>
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 41,636
Operating grants, contributions and restricted interest	224,418
Capital grants, contributions and restricted interest	54,122
General receipts:	
Property and other city tax	572,051
Local option sales tax	184,253
Tax increment financing	499,235
Grants and contributions not restricted to specific purposes	6,336
Unrestricted interest on investments	18,450
Other general receipts	10,937
Transfers, net	84,445
Total receipts and transfers	<u>1,695,883</u>
Disbursements:	
Public safety	510,018
Public works	142,142
Health and social services	565
Culture and recreation	105,542
Community and economic development	154,930
General government	115,683
Debt service	259,688
Capital projects	657,775
Total disbursements	<u>1,946,343</u>
Decrease in cash basis net assets	(250,460)
Cash basis net assets beginning of year	<u>1,899,577</u>
Cash basis net assets end of year	<u><u>\$ 1,649,117</u></u>



The City's total receipts for the governmental funds increased by 3.3%, or \$52,221. The total cost of all programs and services increased by \$416,029, or 27.2%. The significant increase in disbursements was primarily the result of capital projects.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30, 2004
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 249,284
Sewer	183,851
Garbage	56,161
Operating grants, contributions and restricted interest	1,244
General receipts:	
Unrestricted interest on investments	13,767
Total receipts	504,307
 Disbursements and transfers:	
Water	195,136
Sewer	119,689
Garbage	53,042
Transfers	84,445
Total disbursements and transfers	452,312
 Increase in cash basis net assets	 51,995
 Cash basis net assets beginning of year	 981,557
 Cash basis net assets end of year	 \$ 1,033,552

Total business type activities receipts for the fiscal year were \$504,307 compared to \$492,515 last year. The decrease in water revenue was due primarily to a loss of a business that generated high water usage. Sewer rates were increased, which generated additional revenue. Total disbursements and transfers for the fiscal year increased by 7.3% to a total of \$452,312. The net transfer for the fiscal year is the result of a transfer for a capital water project.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Walcott completed the year, its governmental funds reported a combined fund balance of \$1,649,117, a decrease of \$250,460 below last year's total of \$1,899,575. The decrease was primarily due to capital projects.

- The General Fund cash balance of \$772,829 did not change significantly from the prior year.
- The Special Revenue Fund, North Tax Increment Financing (TIF) paid \$105,627 for developer rebate agreements and legal fees and made internal loan repayments to the General Fund totaling \$133,920 for urban renewal projects.
- The Special Revenue Fund, Local Option Sales Tax cash balance increased \$73,701 from the prior year to \$74,658. The City intends to use this money for future projects and to help offset future property tax increases.
- The Debt Service Fund made the yearly principal payment of \$245,000 for the general obligation refunding note and paid interest totaling \$14,688.
- The Capital Projects Fund cash balance decreased by \$360,096 to a year-end balance of \$666,113 at June 30, 2004.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$23,453, due primarily to a decrease in the sale of water.
- The Sewer Fund cash balance increased by \$71,828, due primarily to a rate increase.

BUDGETARY HIGHLIGHTS

The City amended its budget one time. The amendment was approved on May 5, 2004 to provide for additional disbursements in public safety and culture and recreation.

DEBT ADMINISTRATION

On June 30, 2004, the City's outstanding general obligation debt was \$520,000, compared to \$765,000 last year. 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 \$520,000 is significantly below its constitutional debt limit of \$4,428,715.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Walcott's elected and appointed officials and department heads considered many factors when setting the fiscal year 2005 budget, tax rates and fees that will be charged for various City activities.

The proposed fiscal 2005 budget contains total revenues of \$3,149,905 and expenditures of \$3,534,197. This \$3 million-plus budget contains two capital projects and a large equipment purchase including:

- An expenditure of \$615,000 for an upgrade of the City's wastewater treatment plant. This project will also continue through fiscal 2006.
- An expenditure of \$165,000 for a sanitary sewer project.
- An expenditure of \$100,000 for the purchase of a new dump truck with snow plow.

The fiscal 2005 levy is \$9.75001 per \$1,000 of assessed valuation, an increase from \$9.50000 per \$1,000 in fiscal 2004. The City has maximized its General Fund levy limit of \$8.10 and has also levied \$.79828 for FICA & IPERS and \$.85173 for other employee benefits for fiscal 2005. The City levies for debt service and will not be issuing any notes for capital projects in fiscal 2005. No increases in utility (water, sewer, and garbage) rates have been proposed for fiscal 2005.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$384,000 by the close of fiscal 2005.

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 Lisa Rickertsen, City Clerk, 128 W. Lincoln Street, Walcott, Iowa 52773.

Basic Financial Statements

City of Walcott

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 510,018	33,946	61,321	54,122
Public works	142,142	-	129,826	-
Health and social services	565	-	2,100	-
Culture and recreation	105,542	4,403	10,728	-
Community and economic development	154,930	-	-	-
General government	115,683	3,287	-	-
Debt service	259,688	-	-	-
Capital projects	657,775	-	20,443	-
Total governmental activities	1,946,343	41,636	224,418	54,122
Business type activities:				
Water	195,135	249,284	-	-
Sewer	119,689	183,851	1,244	-
Garbage	53,043	56,161	-	-
Total business type activities	367,867	489,296	1,244	-
Total	\$ 2,314,210	530,932	225,662	54,122

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
Local option sales tax
Other city tax
Grants and contributions not restricted to specific purpose
Unrestricted interest on investments
Miscellaneous
Sale of assets
Transfers
Total general receipts and transfers
Change in cash basis net assets
Cash basis net assets beginning of year
Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Streets
 Capital projects
 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
(360,629)	-	(360,629)
(12,316)	-	(12,316)
1,535	-	1,535
(90,411)	-	(90,411)
(154,930)	-	(154,930)
(112,396)	-	(112,396)
(259,688)	-	(259,688)
(637,332)	-	(637,332)
(1,626,167)	-	(1,626,167)

-	54,149	54,149
-	65,406	65,406
-	3,118	3,118
-	122,673	122,673
(1,626,167)	122,673	(1,503,494)

491,863	-	491,863
499,235	-	499,235
184,253	-	184,253
80,188	-	80,188
6,336	-	6,336
18,450	13,767	32,217
10,661	-	10,661
276	-	276
84,445	(84,445)	-
1,375,707	(70,678)	1,305,029
(250,460)	51,995	(198,465)
1,899,577	981,557	2,881,134
\$ 1,649,117	1,033,552	2,682,669

\$ 133,113	-	133,113
666,113	-	666,113
77,062	-	77,062
772,829	1,033,552	1,806,381
\$ 1,649,117	1,033,552	2,682,669

City of Walcott

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

As of and for the year ended June 30, 2004

	Special Revenue			
	General	North Tax		Debt Service
Increment Financing		Local Option Sales Tax		
Receipts:				
Property tax	\$ 409,004	-	-	-
Tax increment financing	-	499,235	-	-
Other city tax	91,144	-	184,253	-
Licenses and permits	30,068	-	-	-
Use of money and property	20,735	-	-	-
Intergovernmental	112,053	-	-	-
Charges for service	3,329	-	-	-
Miscellaneous	42,183	-	-	-
Total receipts	708,516	499,235	184,253	-
Disbursements:				
Operating:				
Public safety	510,018	-	-	-
Public works	142,142	-	-	-
Health and social services	-	-	-	-
Culture and recreation	105,542	-	-	-
Community and economic development	49,303	105,627	-	-
General government	115,683	-	-	-
Debt service	-	-	-	259,688
Capital projects	-	-	-	-
Total disbursements	922,688	105,627	-	259,688
Excess (deficiency) of receipts over (under) disbursements	(214,172)	393,608	184,253	(259,688)
Other financing sources (uses):				
Sale of capital assets	276	-	-	-
Operating transfers in	319,288	-	-	259,688
Operating transfers out	(91,217)	(393,608)	(110,552)	-
Total other financing sources (uses)	228,347	(393,608)	(110,552)	259,688
Net change in cash balances	14,175	-	73,701	-
Cash balances beginning of year	758,654	-	957	-
Cash balances end of year	\$ 772,829	-	74,658	-
Cash Basis Fund Balances				
Unreserved:				
General fund	\$ 772,829	-	-	-
Special revenue funds	-	-	74,658	-
Capital projects fund	-	-	-	-
Total cash basis fund balances	\$ 772,829	-	74,658	-

See notes to financial statements.

Capital Projects	Nonmajor Governmental Funds	Total
-	70,009	479,013
-	-	499,235
-	1,893	277,290
-	-	30,068
-	-	20,735
-	129,827	241,880
-	-	3,329
15,329	2,100	59,612
15,329	203,829	1,611,162
-	-	510,018
-	-	142,142
-	565	565
-	-	105,542
-	-	154,930
-	-	115,683
-	-	259,688
657,775	-	657,775
657,775	565	1,946,343
(642,446)	203,264	(335,181)
-	-	276
282,350	-	861,326
-	(181,504)	(776,881)
282,350	(181,504)	84,721
(360,096)	21,760	(250,460)
1,026,209	113,757	1,899,577
666,113	135,517	1,649,117
-	-	772,829
-	135,517	210,175
666,113	-	666,113
666,113	135,517	1,649,117

Exhibit C

City of Walcott

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

As of and for the year ended June 30, 2004

	Enterprise Funds			Total
	Water	Sewer	Nonmajor - Garbage	
Operating receipts:				
Charges for service	\$ 224,569	183,851	56,161	464,581
Miscellaneous	24,715	1,244	-	25,959
Total operating receipts	249,284	185,095	56,161	490,540
Operating disbursements:				
Business type activities	195,136	119,689	53,042	367,867
Excess of operating receipts over operating disbursements	54,148	65,406	3,119	122,673
Non-operating receipts:				
Interest on investments	7,993	5,641	133	13,767
Excess of receipts over disbursements	62,141	71,047	3,252	136,440
Other financing sources (uses):				
Operating transfers in	-	781	368	1,149
Operating transfers out	(85,594)	-	-	(85,594)
Total other financing sources (uses):	(85,594)	781	368	(84,445)
Net change in cash balances	(23,453)	71,828	3,620	51,995
Cash balances beginning of year	560,610	396,635	24,312	981,557
Cash balances end of year	\$ 537,157	468,463	27,932	1,033,552
Cash Basis Fund Balances				
Unreserved	\$ 537,157	468,463	27,932	1,033,552

See notes to financial statements.

City of Walcott

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Walcott is a political subdivision of the State of Iowa located in Scott County. It was first incorporated in 1894 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 Walcott 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: Scott County Assessor's Conference Board, Scott County Emergency Management Agency and Scott County Joint E911 Service Board.

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 North Tax Increment Financing (TIF) Fund is used to account for urban renewal projects financed by tax increment financing.

The Local Option Sales Tax Fund is used to account for receipts from the local options sales tax. The receipts are used to provide property tax relief and to finance other specific projects.

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 with the exception of those financed through Enterprise Funds.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

The City of Walcott 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.

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.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 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.

(3) Notes and Interfund Loans Payable

Notes Payable

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

Year Ending June 30,	General Obligation Refunding Notes			
	Interest Rates	Principal	Interest	Total
2005	1.75%	\$ 255,000	10,425	265,425
2006	2.25	265,000	5,963	270,963
Total		\$ 520,000	16,388	536,388

Interfund Loans

Beginning in fiscal year 1995-1996, the City agreed to an interfund loan between the Water Fund and the Special Revenue, North Tax Increment Financing Fund to pay costs related to water improvement projects of \$365,651. Payments are made to the extent there are incremental tax receipts available for such purposes which have been allocated to the Special Revenue, North Tax Increment Financing Fund. The outstanding balance of the loan at June 30, 2004 was \$365,651.

On March 26, 2003, the City entered into an interfund loan to advance \$756,000 from the General Fund and \$194,000 from the Special Revenue, Local Option Sales Tax Fund to the Special Revenue, North Tax Increment Financing Fund to pay for the costs of improvements to the municipal wastewater treatment plant within the urban renewal area totaling \$950,000. Payments are made on June 1 of each year to the extent there are incremental tax receipts available for such purposes which have been allocated to the Special Revenue, North Tax Increment Financing Fund. Repayments of \$108,002 were made to the General Fund during the year ended June 30, 2004, leaving an outstanding loan balance of \$841,998 at June 30, 2004.

(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 covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2004 was \$24,800, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory time 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, sick leave and compensatory time hours payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 14,000
Sick leave	45,000
Compensatory time	<u>1,000</u>
Total	<u>\$ 60,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 110,552
	North Tax Increment Financing	133,920
	Employee Benefits	<u>74,816</u>
		<u>319,288</u>
Debt Service	Special Revenue:	
	North Tax Increment Financing	<u>259,688</u>
Capital Projects	General	91,217
	Special revenue:	
	Road Use Tax	106,688
	Enterprise:	
	Water	<u>84,445</u>
		<u>282,350</u>
Enterprise: Garbage	Enterprise: Water	<u>368</u>
Enterprise: Sewer	Enterprise: Water	<u>781</u>
Total		<u>\$ 862,475</u>

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

(7) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Rebate Agreements

The City has entered into six tax increment financing agreements. The City agreed to assist urban renewal projects by rebating incremental taxes paid by the participating companies with respect to the improvements set forth in the urban renewal plan. The incremental taxes to be received by the City under Chapter 403.19 of the Code of Iowa from the participating companies will be rebated for a period of five years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The total amount that will be rebated will be 60% in the first year, 50% in the second year, 40% in the third year, 30% in the fourth year and 20% in the fifth year. The actual amount rebated during the year ended June 30, 2004 was \$102,978.

(9) Construction Commitment

The City entered into a construction contract for a water main extension project totaling approximately \$81,000. As of June 30, 2004 no payments have been made. Payments will be made as work on this project progresses from available sources in the Enterprise, Water Fund.

(10) Accounting Change and Restatements

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, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The Walcott Forever Green Fund, previously reported as an Expendable Trust Fund, is now reported as a Special Revenue Fund.

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 479,013	-	479,013	460,209	460,209	18,804
Tax increment financing	499,235	-	499,235	501,996	501,996	(2,761)
Other city tax	277,290	-	277,290	257,485	257,485	19,805
Licenses and permits	30,068	-	30,068	13,370	21,378	8,690
Use of money and property	20,735	13,767	34,502	42,200	34,625	(123)
Intergovernmental	241,880	-	241,880	189,464	229,451	12,429
Charges for service	3,329	464,581	467,910	492,500	455,568	12,342
Miscellaneous	59,612	25,959	85,571	21,675	60,535	25,036
Total receipts	1,611,162	504,307	2,115,469	1,978,899	2,021,247	94,222
Disbursements:						
Public safety	510,018	-	510,018	493,034	543,825	33,807
Public works	142,142	-	142,142	213,473	213,473	71,331
Health and social services	565	-	565	4,150	4,150	3,585
Culture and recreation	105,542	-	105,542	85,047	115,740	10,198
Community and economic development	154,930	-	154,930	158,303	158,303	3,373
General government	115,683	-	115,683	149,426	149,426	33,743
Debt service	259,688	-	259,688	283,693	259,688	-
Capital projects	657,775	-	657,775	1,245,000	795,000	137,225
Business type activities	-	367,867	367,867	515,791	515,791	147,924
Total disbursements	1,946,343	367,867	2,314,210	3,147,917	2,755,396	441,186
Excess (deficiency) of receipts over (under) disbursements	(335,181)	136,440	(198,741)	(1,169,018)	(734,149)	535,408
Other financing sources, net	84,721	(84,445)	276	-	-	276
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(250,460)	51,995	(198,465)	(1,169,018)	(734,149)	535,684
Balances beginning of year	1,899,577	981,557	2,881,134	2,619,866	2,881,133	1
Balances end of year	\$ 1,649,117	1,033,552	2,682,669	1,450,848	2,146,984	535,685

See accompanying independent auditor's report.

City of Walcott

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted disbursements by \$392,521. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

City of Walcott

Other Supplementary Information

City of Walcott

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

As of and for the year ended June 30, 2004

	Special	
	Road Use Tax	Employee Benefits
Receipts:		
Property tax	\$ -	70,009
Other city tax	-	1,893
Intergovernmental	129,827	-
Miscellaneous	-	-
Total receipts	129,827	71,902
Disbursements:		
Operating:		
Health and social services	-	-
Excess of receipts over disbursements	129,827	71,902
Other financing uses:		
Operating transfers out	(106,688)	(74,816)
Net change in cash balances	23,139	(2,914)
Cash balances beginning of year	109,974	2,914
Cash balances end of year	\$ 133,113	-
Cash Basis Fund Balances		
Unreserved:		
Special revenue funds	\$ 133,113	-

See accompanying independent auditor's report.

<u>Revenue</u>	
Walcott Forever Green	Total
-	70,009
-	1,893
-	129,827
2,100	2,100
<u>2,100</u>	<u>203,829</u>
565	565
<u>1,535</u>	<u>203,264</u>
-	(181,504)
1,535	21,760
869	113,757
<u>2,404</u>	<u>135,517</u>
<u>2,404</u>	<u>135,517</u>

City of Walcott
Schedule of Indebtedness
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes: Refunding	May 16, 2003	1.5-2.25%	\$ 765,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
765,000	-	245,000	520,000	14,688

Schedule 3

City of Walcott

Note Maturities

June 30, 2004

Year Ending June 30,	General Obligation Notes	
	Refunding	
	Issued May 16, 2003	
	Interest Rates	Amount
2005	1.75%	\$ 255,000
2006	2.25	<u>265,000</u>
Total		<u><u>\$ 520,000</u></u>

See accompanying independent auditor's report.



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

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Auditor of State

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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 Walcott, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 27, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, 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 Walcott's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 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.

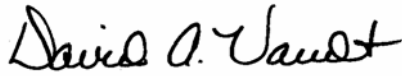
Internal Control Over Financial Reporting


In planning and performing our audit, we considered the City of Walcott'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 a matter 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 Walcott's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is 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. The prior audit reportable condition has not been resolved and is restated.

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


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 27, 2004

City of Walcott
Schedule of Findings
Year ended June 30, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

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

The City does not have written policies for:

- Requiring a time out and/or log off function or a screen saver password to protect a terminal if left unattended.
- Requiring password changes every 60 to 90 days or to maintain password privacy and confidentiality.
- Ensuring only software licensed to the City is installed on computers.
- A written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over its information system.

Response – We will review our information system and develop the necessary policies.

Conclusion – Response accepted.

City of Walcott

Schedule of Findings

Year ended June 30, 2004

Findings Related to Required Statutory Reporting:

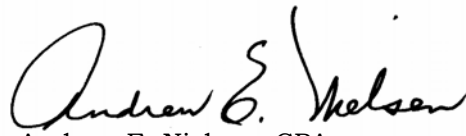
- (1) Official Depository – A resolution naming the official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- (2) Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.
- (3) Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (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 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 Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

City of Walcott

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager
John D. Vanis, CGFM, CPA, Senior Auditor
Michael J. Gentry, Jr., CPA, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State