

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

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NEWS RELEASE

FOR RELEASE

October 17, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an audit report on the the City of Walnut, Iowa.

The City's receipts totaled \$2,629,129 for the year ended June 30, 2018. The receipts included \$303,226 of property tax, \$105,916 of tax increment financing, \$291,524 of charges for service, \$416,369 of operating grants, contributions and restricted interest, \$467,897 of capital grants, contributions and restricted interest, \$104,618 of local option sales tax, \$54,537 of hotel/motel tax, \$7,312 of unrestricted interest on investments, \$850,630 of interim revenue project note proceeds and \$27,100 of other general receipts.

Disbursements for the year ended June 30, 2018 totaled \$3,037,084 included \$719,514 for capital projects, \$215,759 for general government and \$194,436 for public works. Also, disbursements for business type activities totaled \$1,542,739.

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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CITY OF WALNUT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2018

City of Walnut



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Telephone (515) 281-5834 Facsimile (515) 281-6518

September 24, 2019

Officials of the City of Walnut
Walnut, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the financial and compliance audit report for the City of Walnut, Iowa, for the year ended June 30, 2018. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Walnut throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand
Auditor of State

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City of Walnut

Officials

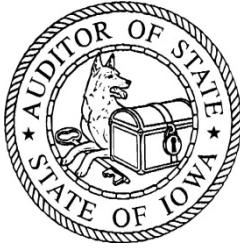
(Before January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gene Larsen	Mayor	Jan 2018
Robert Kreeger	Council Member	(Resigned Aug 2017)
Dennis Hullinger	Council Member	Jan 2018
Susan Shepherd	Council Member	Jan 2018
Trace Frahm	Council Member	Jan 2020
Justen Tooley	Council Member	Jan 2020
Mike Gettler (Appointed Dec 2017)	Council Member	Nov 2021
Dona Grooms	City Treasurer	Indefinite
Terri Abel	City Clerk	(Retired June 2018)
Richard Schenck	Attorney	Indefinite

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gene Larsen	Mayor	Jan 2020
Trace Frahm	Council Member	Jan 2020
Justen Tooley	Council Member	Jan 2020
Linda Booth	Council Member	Jan 2022
Mike Gettler	Council Member	Jan 2022
Dennis Hullinger	Council Member	Jan 2022
Dona Grooms	City Treasurer	Indefinite
Shannon Wood (Hired July 2018)	City Clerk	Indefinite
Richard Schenck	Attorney	Indefinite

City of Walnut



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Walnut, Iowa, as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinions.

Basis for Qualified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all the prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balances at July 1, 2017.

Qualified Opinions

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, 2017, as discussed in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Walnut as of June 30, 2018, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Emphasis of a Matter

As discussed in Note 5 to the financial statements, the City of Walnut adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

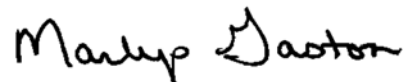
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Walnut's basic financial statements. The supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 24 through 29, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 24, 2019 on our consideration of the City of Walnut's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Walnut's internal control over financial reporting and compliance.



Marlys K. Gaston, CPA
Deputy Auditor of State

September 24, 2019

City of Walnut

Basic Financial Statements

City of Walnut

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2018

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 131,754	40,711	51,307	-
Public works	194,436	44,458	100,158	-
Culture and recreation	78,659	4,335	-	-
Community and economic development	64,380	335	-	-
General government	215,759	3,377	7,468	-
Debt service	89,843	-	-	-
Capital projects	719,514	-	257,436	-
Total governmental activities	1,494,345	93,216	416,369	-
Business type activities:				
Water	1,511,430	144,117	-	467,897
Sewer	31,309	54,191	-	-
Total business type activities	1,542,739	198,308	-	467,897
Total	\$ 3,037,084	291,524	416,369	467,897
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Unrestricted interest on investments				
Interim revenue project note proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Streets				
Debt service				
Capital projects				
Other purposes				
Unrestricted				
Total cash basis net position				
See notes to financial statements.				

Net (Disbursements) Receipts and
Changes in Cash Basis Net Position

Governmental Activities	Business Type Activities	Total
(39,736)	-	(39,736)
(49,820)	-	(49,820)
(74,324)	-	(74,324)
(64,045)	-	(64,045)
(204,914)	-	(204,914)
(89,843)	-	(89,843)
(462,078)	-	(462,078)
(984,760)	-	(984,760)
-	(899,416)	(899,416)
-	22,882	22,882
-	(876,534)	(876,534)
(984,760)	(876,534)	(1,861,294)

303,226	-	303,226
105,916	-	105,916
104,618	-	104,618
54,537	-	54,537
7,312	-	7,312
-	850,630	850,630
25,446	1,654	27,100
(11,867)	11,867	-
589,188	864,151	1,453,339
(395,572)	(12,383)	(407,955)
2,001,939	359,544	2,361,483
\$ 1,606,367	347,161	1,953,528

\$ 140,074	-	140,074
1,521	19,621	21,142
660,851	62,952	723,803
602,855	-	602,855
201,066	264,588	465,654
\$ 1,606,367	347,161	1,953,528

Exhibit B

City of Walnut

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

As of and for the year ended June 30, 2018

	General	Capital Projects	Nonmajor	Total
Receipts:				
Property tax	\$ 205,891	-	96,788	302,679
Tax increment financing	-	-	105,916	105,916
Other city tax	65,546	94,156	-	159,702
Licenses and permits	4,730	-	-	4,730
Use of money and property	3,075	4,124	113	7,312
Intergovernmental	32,753	210,153	100,158	343,064
Charges for service	88,486	-	-	88,486
Miscellaneous	2,531	45,099	51,121	98,751
Total receipts	403,012	353,532	354,096	1,110,640
Disbursements:				
Operating:				
Public safety	101,450	-	30,304	131,754
Public works	79,256	-	115,180	194,436
Culture and recreation	73,543	-	5,116	78,659
Community and economic development	64,380	-	-	64,380
General government	147,802	-	67,957	215,759
Debt service	-	-	89,843	89,843
Capital projects	-	719,514	-	719,514
Total disbursements	466,431	719,514	308,400	1,494,345
Excess (deficiency) of receipts over (under) disbursements	(63,419)	(365,982)	45,696	(383,705)
Other financing sources (uses):				
Transfers in	25,000	60,000	89,843	174,843
Transfers out	(60,000)	(11,867)	(114,843)	(186,710)
Total other financing sources (uses)	(35,000)	48,133	(25,000)	(11,867)
Change in cash balances	(98,419)	(317,849)	20,696	(395,572)
Cash balances beginning of year	555,893	978,700	467,346	2,001,939
Cash balances end of year	\$ 457,474	660,851	488,042	1,606,367
Cash Basis Fund Balances				
Restricted for:				
Streets	\$ -	-	140,074	140,074
Debt service	-	-	1,521	1,521
Other purposes	256,408	-	346,447	602,855
Capital projects	-	660,851	-	660,851
Unassigned	201,066	-	-	201,066
Total cash basis fund balances	\$ 457,474	660,851	488,042	1,606,367

See notes to financial statements.

City of Walnut

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

As of and for the year ended June 30, 2018

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 144,117	54,191	198,308
Miscellaneous	1,654	-	1,654
Total operating receipts	145,771	54,191	199,962
Operating disbursements:			
Business type activities	136,005	31,309	167,314
Excess of operating receipts over operating disbursements	9,766	22,882	32,648
Non-operating receipts (disbursements):			
Intergovernmental	467,897	-	467,897
Interim revenue project note proceeds	850,630	-	850,630
Capital projects	(1,375,425)	-	(1,375,425)
Net non-operating receipts (disbursements)	(56,898)	-	(56,898)
Excess (deficiency) of receipts over (under) disbursements	(47,132)	22,882	(24,250)
Transfers in	11,867	-	11,867
Change in cash balances	(35,265)	22,882	(12,383)
Cash balances beginning of year	262,968	96,576	359,544
Cash balances end of year	\$ 227,703	119,458	347,161
Cash Basis Fund Balances			
Restricted for debt service	\$ 19,621	-	19,621
Restricted for capital projects	62,952	-	62,952
Unrestricted	145,130	119,458	264,588
Total cash basis fund balances	\$ 227,703	119,458	347,161

See notes to financial statements.

City of Walnut

Notes to Financial Statements

June 30, 2018

(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 1877 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 and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Walnut has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

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 fictional relationship with the City.

Blended Component Unit

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Pottawattamie County Assessor's Conference Board, City Assessor's Conference Board, Pottawattamie County Emergency Management Commission, E911 Service Board and Iowa Waste Systems Association.

B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position 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 receipts are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position 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 from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

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

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2018 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 ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2018, the City had the following investments:

Investment	Carrying Amount	Fair Value	Maturity
Federal Farm Credit Bank Bonds	\$ 28,570	27,692	November 2028
Tennessee Valley Authority* 2003 Power Bonds	31,377	34,640	July 2033
Tennessee Valley Authority*	44,818	47,995	December 2042
	<u>\$ 104,765</u>	<u>110,327</u>	

* The Tennessee Valley Authority (TVA) is a U.S. government agency.

The City uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, Level 3 inputs are significant unobservable inputs.

The recurring fair value of the Federal Farm Credit Bank Bonds and the Tennessee Valley Authority Bonds were determined using quoted market prices. (Level 1 inputs). The Tennessee Valley Authority is invested in securities generally designed to achieve a return in line with broad equity market performance and were determined using significant other observable inputs (Level 2 inputs).

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$30,248 pursuant to Rule 2A-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The City's investment in the Iowa Public Agency Investment Trust is unrated.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2019	\$ 75,000	13,380
2020	75,000	12,518
2021	75,000	11,355
2022	80,000	10,193
2023	80,000	8,633
2024-2027	300,000	17,103
Total	<u>\$ 685,000</u>	<u>73,182</u>

Interim Revenue Project Note

On December 6, 2016, the City entered into an interim revenue project note agreement for up to \$1,383,000 to be used for the purpose of paying costs of planning, designing and constructing improvements to the City water system. During the year ended June 30, 2018 the City drew down \$850,630 of the proceeds for a total cumulative amount drawn of \$1,015,922. The loan will be repaid with a water revenue note approved on September 21, 2018.

(4) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS’ Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2018, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%.

The City’s contributions to IPERS for the year ended June 30, 2018 totaled \$17,943.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the City reported a liability of \$164,319 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2017, the City’s proportion was 0.002467%, which was an increase of 0.000202% over its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$22,602, \$31,551 and \$32,975, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study dated March 24, 2017.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	24.0%	6.25%
International equity	16.0	6.71
Core plus fixed income	27.0	2.25
Public credit	3.5	3.46
Public real assets	7.0	3.27
Cash	1.0	(0.31)
Private equity	11.0	11.15
Private real assets	7.5	4.18
Private credit	3.0	4.25
Total	<u>100.0%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 270,732	164,319	74,912

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and the plan members range from \$1,253 for two person coverage and \$1,993 for family coverage. For the year ended June 30, 2018, the City contributed 100% of plan premium costs of \$82,460. At June 30, 2018, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by the City of Walnut and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	-
Active employees	4
Total	<u>4</u>

(6) 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 payable to employees at June 30, 2018, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 2,400
Sick leave	6,700
Total	<u>\$ 9,100</u>

This liability has been computed based on rates of pay in effect at June 30, 2018.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2018 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: TIF	<u>\$ 25,000</u>
Capital Projects	Enterprise: Water	<u>60,000</u>
Debt Service	Special Revenue: Local Option Sales Tax	<u>89,843</u>
Water	Capital Projects	<u>11,867</u>
Total		<u>\$ 186,710</u>

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

(8) Risk Management

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

(9) Development Agreements

The City has entered into a development agreement with Nelsen Welding (developer) for the construction of a commercial facility. The City agreed to pay the developer \$10,000 as an economic development grant, within 30 days of the agreement provided the developer is in compliance with the terms of the agreement. In addition, provided the facility has been completed, rebate payments will be made June 1 of each year, beginning June 1, 2016 and continuing June 1 in each of the years 2017-2020 or until total payments equal \$50,000. During the year the City rebated \$10,446 of incremental property tax to the developer.

In July 2015, the City of Walnut, in accordance with the provisions of Section 403.5 of the Code of Iowa, amended its urban renewal plan and established the Small Business Start-Up Grant program designed to encourage entrepreneurs to support business in Walnut. The program provides up to \$5,000 in grant funds to eligible businesses located in commercial districts within the City limits of Walnut. During the year, the City paid \$15,000 in start-up grants to eligible businesses.

(10) Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax receipts to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the City enters into agreements with developers which require the City, after developers meet the terms of the agreements, to rebate a portion of the property tax paid by the developers, to pay the developers an economic development grant or pay the developers a predetermined dollar amount. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2018, the City abated \$12,054 of property tax under the urban renewal and economic development agreements.

(11) Subsequent Events

In September 21, 2018, the City Council approved the issuance of a \$1,103,000 water revenue note. The proceeds will be used to pay off the interim revenue project note for the well project.

Other Information

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

Other Information

Year ended June 30, 2018

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 302,679	-	-
Tax increment financing	105,916	-	-
Other city tax	159,702	-	-
Licenses and permits	4,730	-	-
Use of money and property	7,312	-	113
Intergovernmental	343,064	467,897	-
Charges for service	88,486	199,962	-
Special assessments	-	-	-
Miscellaneous	98,751	-	26,022
Total receipts	1,110,640	667,859	26,135
Disbursements:			
Public safety	131,754	-	-
Public works	194,436	-	27,509
Culture and recreation	78,659	-	-
Community and economic development	64,380	-	-
General government	215,759	-	-
Debt service	89,843	-	-
Capital projects	719,514	-	-
Business type activities	-	1,542,739	-
Total disbursements	1,494,345	1,542,739	27,509
Excess of receipts over disbursements	(383,705)	(874,880)	(1,374)
Other financing sources, net	(11,867)	862,497	-
Excess of receipts and other financing sources over disbursements and other financing uses	(395,572)	(12,383)	(1,374)
Balances beginning of year	2,001,939	359,544	37,907
Balances end of year	\$ 1,606,367	347,161	36,533

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
302,679	291,308	291,308	11,371
105,916	105,983	105,983	(67)
159,702	285,568	285,568	(125,866)
4,730	1,450	1,450	3,280
7,199	6,580	6,580	619
810,961	1,011,446	1,011,446	(200,485)
288,448	372,500	375,500	(87,052)
-	-	-	-
72,729	36,874	36,874	35,855
1,752,364	2,111,709	2,114,709	(362,345)
131,754	83,911	133,911	2,157
166,927	268,906	428,906	261,979
78,659	184,408	184,408	105,749
64,380	85,600	85,600	21,220
215,759	242,464	242,464	26,705
89,843	89,843	89,843	-
719,514	891,901	891,901	172,387
1,542,739	2,249,492	2,249,492	706,753
3,009,575	4,096,525	4,306,525	1,296,950
(1,257,211)	(1,984,816)	(2,191,816)	934,605
850,630	1,242,556	1,242,556	(391,926)
(406,581)	(742,260)	(949,260)	542,679
2,323,576	2,484,703	2,484,703	(161,127)
1,916,995	1,742,443	1,535,443	381,552

City of Walnut

Notes to Other Information – Budgetary Reporting

June 30, 2018

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$210,000. The budget amendment is reflected in the final budgeted amounts.

City of Walnut

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Two Years*
(In Thousands)

Other Information

	2018	2017
City's proportion of the net pension liability	0.002467%	0.002265%
City's proportionate share of the net pension liability	\$ 164	143
City's covered payroll	\$ 184	162
City's proportionate share of the net pension liability as a percentage of its covered payroll	89.13%	88.27%
IPERS' net position as a percentage of the total pension liability	82.21%	81.82%

* In accordance with GASB State No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Walnut

Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Last Five Years
(In Thousands)

Other Information

	2018	2017	2016	2015	2014
Statutorily required contribution	\$ 18	16	14	14	14
Contributions in relation to the statutorily required contribution	(18)	(16)	(14)	(14)	(14)
Contribution deficiency (excess)	\$ -	-	-	-	-
City's covered payroll	\$ 201	184	162	165	157
Contributions as a percentage of covered payroll	8.96%	8.70%	8.64%	8.48%	8.92%

Note: City's contributions and covered payroll information for the years ended 2009-2013 were not readily available.

See accompanying independent auditor's report.

City of Walnut

Notes to Other Information – Pension Liability

Year ended June 30, 2018

Changes of benefit terms:

There were no significant changes in benefit terms.

Changes of assumptions:

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2015. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

City of Walnut

Supplementary Information

City of Walnut

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

As of and for the year ended June 30, 2018

	Road Use Tax	Employee Benefits	Special Urban Renewal TIF
Receipts:			
Property tax	\$ -	96,788	-
Tax increment financing	-	-	105,916
Use of money and property	-	-	-
Intergovernmental	100,158	-	-
Miscellaneous	-	18,940	-
Total receipts	100,158	115,728	105,916
Disbursements:			
Operating:			
Public safety	-	2,795	-
Public works	61,830	53,350	-
Cultures and recreation	-	3,793	-
General government	-	67,957	-
Debt service	-	-	-
Total disbursements	61,830	127,895	-
Excess (deficiency) of receipts over (under) disbursements	38,328	(12,167)	105,916
Other financing uses:			
Transfers in	-	-	-
Transfers out	-	-	(114,843)
Change in cash balances	38,328	(12,167)	(8,927)
Cash balances beginning of year	101,746	155,724	10,448
Cash balances end of year	\$ 140,074	143,557	1,521
Cash Basis Fund Balances			
Restricted for:			
Streets	\$ 140,074	-	-
Debt service	-	-	1,521
Other purposes	-	143,557	-
Total cash basis fund balances	\$ 140,074	143,557	1,521

See accompanying independent auditor's report.

Revenue				
Library Memorial	Library Investment	Walnut Fire and Rescue Association	Debt Service	Total
-	-	-	-	96,788
-	-	-	-	105,916
-	-	113	-	113
-	-	-	-	100,158
2,081	4,078	26,022	-	51,121
2,081	4,078	26,135	-	354,096
-	-	27,509	-	30,304
-	-	-	-	115,180
1,317	6	-	-	5,116
-	-	-	-	67,957
-	-	-	89,843	89,843
1,317	6	27,509	89,843	308,400
764	4,072	(1,374)	(89,843)	45,696
-	-	-	89,843	89,843
-	-	-	-	(114,843)
764	4,072	(1,374)	-	20,696
4,653	156,868	37,907	-	467,346
5,417	160,940	36,533	-	488,042
-	-	-	-	140,074
-	-	-	-	1,521
5,417	160,940	36,533	-	346,447
5,417	160,940	36,533	-	488,042

City of Walnut
Schedule of Indebtedness
Year ended June 30, 2018

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Water improvement	May 15, 2013	0.50 - 2.55%	\$ 1,060,000
Interim revenue project notes:			
Water	Dec 6, 2016	4.95 - 5.15%	\$ 1,015,922

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
760,000	-	75,000	685,000	14,243	-
165,292	850,630	-	1,015,922	-	-

Schedule 3

City of Walnut
Bond and Note Maturities
June 30, 2018

<u>General Obligation Bonds</u>				
Water				
<u>Improvement</u>				
<u>Issued May 15, 2013</u>				
Year Ending June 30,	<u>Interest</u>		Amount	Total
	Rates			
2019	1.15%	\$	75,000	75,000
2020	1.55		75,000	75,000
2021	1.55		75,000	75,000
2022	1.95		80,000	80,000
2023	1.95		80,000	80,000
2024	2.20		80,000	80,000
2025	2.20		85,000	85,000
2026	2.55		85,000	85,000
2027	2.55		50,000	50,000
Total		\$	<u>685,000</u>	<u>685,000</u>

City of Walnut

Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
Direct:			
U.S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities	10.760	FY2018	\$ 918,423
Indirect:			
U.S. Department of Housing and Urban Development: Iowa Economic Development Authority: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	15-DTR-002	142,908
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	17-WS-013	292,638
			435,546
Total			\$ 1,353,969

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the City of Walnut under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Walnut, it is not intended to and does not present the financial position, changes in financial position or cash flows of the City of Walnut.

Summary of Significant Accounting Policies – Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate – The City of Walnut has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.



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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Walnut, Iowa, as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 24, 2019. Our report expressed qualified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles, since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Walnut's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Walnut's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Walnut's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Walnut's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-18 and II-B-18 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items IV-C-18 through IV-F-18 to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2018 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

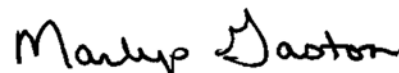
The City of Walnut's Responses to the Findings

The City of Walnut's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Walnut's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.


Marlys K. Gaston, CPA
Deputy Auditor of State

September 24, 2019



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Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by the Uniform Guidance

To the Honorable Mayor and Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Walnut, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the City of Walnut's major federal program for the year ended June 30, 2018. The City of Walnut's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Walnut's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Walnut's compliance with those requirements and performing such other procedures we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Walnut's compliance.

Opinion on the Major Federal Program

In our opinion, the City of Walnut complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

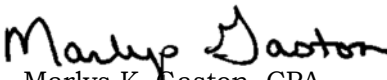
Report on Internal Control Over Compliance

The management of the City of Walnut is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Walnut's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Walnut's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


Marlys K. Gaston, CPA
Deputy Auditor of State

September 24, 2019

City of Walnut

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Part I: Summary of the Independent Auditor's Results:

- (a) Qualified opinions were issued on the financial statements prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with the Uniform Guidance, Section 200.516.
- (g) The major program was CFDA Number 10.760 – Water and Waste Disposal Systems for Rural Communities.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of Walnut did not qualify as a low-risk auditee.

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-18 Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements.

Condition – Generally, one individual may have control over the following areas for which no compensating controls exist:

- 1) Accounting system – performing all accounting functions.
- 2) Cash – handling, reconciling and recording.
- 3) Investments – recordkeeping, investing and reconciling earnings.
- 4) Debt – recordkeeping and debt payment processing.
- 5) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- 6) Disbursements – purchasing, invoice processing, recording and reconciling.
- 7) Payroll – recordkeeping, preparing and distributing.
- 8) Utilities – billing, collecting, depositing, posting and reconciling.
- 9) Financial Reporting – preparing, recording and reconciling.
- 10) Computer usage – performing all general accounting functions and controlling all data input and output.

For the Walnut Fire and Rescue Association, one individual has control over the following areas:

- 1) Cash – handling, reconciling and recording.
- 2) Receipts – collecting, depositing, reconciling and posting.
- 3) Disbursements – preparing, recording and reconciling.

Cause – The City and the Fire Association have a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City’s and the Fire Association’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

City of Walnut

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Recommendation – The City and the Fire Association should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials, to provide additional controls through review of financial transactions, reconciliations and reports.

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

Conclusion – Response accepted.

II-B-18 Computer System

Criteria – Properly designed policies and procedures pertaining to control activities over the City’s computer system and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable and help ensure the effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Condition – The City does not have written policies for:

- 1) Requiring passwords to be changed at least every 60 to 90 days.
- 2) Maintaining password privacy and confidentiality.
- 3) Software system locking users out after an extended period of inactivity.

The City also does not periodically review user profiles to ensure employees only have access to programs necessary to their job functions.

Cause – Management has not required written policies for the above computer-based controls.

Effect – Lack of written policies for computer-based system could result in loss of data or compromised data, resulting in unreliable financial information.

Recommendation – The City should develop written policies and procedures to improve the City’s control over its computer system.

Response – The City will develop written policies for the City’s computers. The City will contact the software company to see how to better segregate the two computers and lock out users after an extended period of inactivity.

Conclusion – Response accepted.

City of Walnut

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

II-C-18 Petty Cash Fund

Criteria – Petty cash fund amounts should be authorized by the City Council and should be maintained on an imprest basis.

Condition – The petty cash and change fund was not approved by the City Council and was not maintained on an imprest basis. An imprest system is one in which petty cash is maintained at a fixed, authorized, amount and all distributions from the petty cash fund are supported/documented with a vendor receipt.

Cause – Procedures have not been implemented to authorize or maintain all petty cash and change fund amounts on an imprest basis.

Effect – This condition could result in unrecorded or misstated receipts and the opportunity for misappropriation.

Recommendation – The petty cash and change fund amounts should be approved by the City Council and should be maintained on an imprest basis to provide additional control over the fund.

Response – The City will amend the Financial Management Ordinance to reflect the minimum amount of money that will be kept in the cash fund at all times, as well as the maximum amount of money that will be allowed in petty cash. In addition, the City will establish procedures to maintain their petty cash and change funds on an imprest basis.

Conclusion – Response accepted.

II-D-18 Accounting Policies and Procedures Manual (Fire Association)

Criteria – Accounting policies and procedures manuals provide the following benefits:

- 1) Aid in training additional or replacement staff.
- 2) Help achieve uniformity in accounting and in the application of policies and procedures.
- 3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.
- 4) Improve the efficiency and understanding of steps to perform for running monthly financial reports and retrieving management information.

Condition – The Fire Association does not have an accounting policies and procedures manual.

Cause – Officials have been unaware of the need for an accounting policies and procedures manual.

City of Walnut

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Effect – Lack of an accounting policies and procedures manual could result in the Association’s lack of ability to continue operating effectively and efficiently in the event there is accounting staff turnover.

Recommendation – An accounting policies and procedures manual should be developed for the Fire Association.

Response – The Walnut Fire Association will adopt the City’s accounting policy.

Conclusion – Response accepted.

II-E-18 Bank Reconciliations (Fire Association)

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by maintaining appropriate accounting records and reconciling bank and book balances. Supervisory review of bank reconciliations can help ensure the accuracy of recorded amounts.

Condition – Monthly bank statements are reconciled to the City’s monthly financial report for the Walnut Fire Association. However, the monthly bank reconciliations were not reviewed and approved by an independent person prior to September 2017.

Cause – Procedures have not been designed and implemented to ensure bank reconciliations are independently reviewed for completeness and accuracy.

Effect – The lack of independent review of bank reconciliations and incomplete reconciliation can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

Recommendation – An independent person should review the bank reconciliations and document their review by signing or initialing and dating the monthly reconciliations.

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

Conclusion – Response accepted.

II-F-18 Cash Withdrawal (Fire Association)

Criteria – Management is responsible for maintaining internal controls over cash, including cash withdrawals and maintain supporting documentation.

Condition – Two cash withdrawals totaling \$2,400 were noted in testing with no supporting documentation available for how the funds were used. Per inquiry of Fire Association personnel, the cash withdrawals were made to provide start-up cash for the annual Pancake Breakfast.

City of Walnut

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Cause – Procedures have not been designed and implemented to ensure cash withdrawals are properly documented.

Effect – The ability to withdraw cash without proper documentation and internal controls provides an opportunity for misappropriation.

Recommendation – The Fire Association should document cash withdrawals including the total amount, a breakdown by bills, and the purpose. Following the breakfast two deposits should be made, one for the original start-up funds and one for the breakfast proceeds.

Response – The Fire Association holds an annual pancake breakfast fundraiser. The money withdrawn is used as start up cash for the event and is returned to the account after the fundraiser. The Association will endeavor to record transactions more clearly and thoroughly.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

No material weaknesses in internal control over the major program were noted.

City of Walnut

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-18 Certified Budget – Disbursements during the year ended June 30, 2018 did not exceed the amounts budgeted.

IV-B-18 Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain disbursements were noted which we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Peace Haven	Grant for water meter replacement	\$ 1,000

According to the opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by these types of disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper public purpose documentation.

Response – Peace Haven is the only non-profit retirement housing facility within the City, the grant of \$1,000 was to help pay for a portion of the cost of a new water meter, without which the City would have not been properly collecting the correct amount for the facility’s water usage.

Conclusion – Response acknowledged. The City should determine and document public benefit prior to making future such payments.

IV-C-18 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-18 Business Transactions – No business transactions between the City and City officials were noted.

IV-E-18 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.

IV-F-18 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

IV-G-18 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 Walnut

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

IV-H-18 Annual Urban Renewal Report – The Annual Urban Renewal Report was approved and certified to the Iowa Department of Management on or before December 1. The report was filed on January 31, 2018.

IV-I-18 Local Option Sales Tax – On November 8, 1994, the voters of the City approved adoption of a 1% Local Option Sales Tax (LOST). The LOST was approved to be use 10% for property tax relief and 90% for infrastructure. The City installed a splash pad and has paid for the water used for the pad with the infrastructure portion of LOST Funds. The City transferred \$76,148, beginning with the summer of 2011 through June 30, 2018, from the Special Revenue, LOST Improvement Fund to the Enterprise, Water Fund to reimburse the Water Fund for the water usage. It is unclear how payment of water used for a splash pad is an allowable use of the “infrastructure” portion of the LOST funds.

Recommendation –The City should transfer \$76,148 from Enterprise, Water Fund to the Special Revenue, LOST Infrastructure Fund to reimburse the LOST Fund for the unallowable transfers out. A transfer of \$76,148 from an allowable fund (i.e., the General Fund) can be made to the Enterprise, Water Fund to reimburse for the splash pad water costs. In the future, the City should ensure the disbursements paid from the Local Option Capital Improvements Fund meet the requirements of the referendum approved by the voters.

Response – The City currently does not have the \$76,148 to make the corrective transfer. The City will investigate alternatives to making the corrective transfer, potentially setting up a payment plan. In the future, the City will endeavor to comply with the provisions relative to purpose of the Local Option Sales Tax referendum.

Conclusion – Response accepted.

IV-J-18 Utility Bill Forgiveness – During the fiscal year ended June 30, 2018, the City forgave utility bills totaling \$700 as payment for mowing services as provided by a utility customer. Forgiving utility payments violates Chapter 388.4 of the Code of Iowa which requires “A city utility or a combined utility system may not provide us or service at a discriminatory rate ...”.

In addition, payment for services in this manner understates utility receipts and circumvents the City’s normal, budgeting, accounts payable and bill approval process. Payment in this manner also, in effect, takes the payment from the utility funds. It is unclear whether payment for the mowing services was appropriate from the utility funds. Typically, mowing is a service paid from the General Fund.

Recommendation – The City should comply with Chapter 388.4 of the Code of Iowa and prohibit forgiving utility bills. The City should contract for and pay for mowing services in a manner consistent with the City’s normal accounts payable process, including ensuring the payments are properly budgeted, approved and are recorded in an appropriate fund.

Response – The City Council will discuss the forgiveness of the utility bills and how to proceed further with this situation.

City of Walnut

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Conclusion – Response acknowledged. The City should comply with Chapter 388.4 of the Code of Iowa and prohibit forgiving utility bills. The City should contract for and pay for mowing services in a manner consistent with the City’s normal accounts payable process, including ensuring the payments are properly budgeted, approved and are recorded in an appropriate fund.

City of Walnut

Staff

This audit was performed by:

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Matthew A. Miller, Staff Auditor
Jon G. Hanson, Staff Auditor