



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

Rob Sand  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

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

**NEWS RELEASE**

FOR RELEASE

August 14, 2020

Contact: Marlys Gaston  
515/281-5834

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

**FINANCIAL HIGHLIGHTS:**

The City's receipts totaled \$1,127,110 for the year ended June 30, 2019, and disbursements totaled \$929,039.

**AUDIT FINDINGS:**

Sand reported six findings related to the receipt and disbursement of taxpayer funds. They are found on pages 30 through 34 of this report. The findings address issues such as a lack of segregation of duties, lack of independent review of reconciliations of utility billings, collections and delinquent accounts, disbursements exceeding budgeted amounts prior to the budget amendment and incorrect certifications of TIF debt. Sand provided the City with recommendations to address each of the findings.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

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

###

**CITY OF WALFORD**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2019**

**City of Walford**



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

Rob Sand  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

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

June 17, 2020

Officials of the City of Walford  
Walford, 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 Walford, Iowa for the year ended June 30, 2019. 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 Walford 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, appearing to read "Rob Sand".

Rob Sand  
Auditor of State

## Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor’s Report	4-5
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Cash Basis Statement of Activities and Net Position	A      8-9
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B      10
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C      11
Notes to Financial Statements	12-20
Other Information	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual – All Governmental Funds and Proprietary Funds	22-23
Notes to Other Information – Budgetary Reporting	24
Schedule of the City’s Proportionate Share of the Net Pension Liability	25
Schedule of City Contributions	26
Notes to Other Information – Pension Liability	27
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 <u>Government Auditing Standards</u>	28-29
Schedule of Findings	30-34
Staff	35

**City of Walford**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bill Voss	Mayor	Jan 2022
Jesse Bergmeier	Council Member	Jan 2020
Jeff Kane	Council Member	Jan 2020
Mike Huber	Council Member	Jan 2020
John Pegump	Council Member	Jan 2022
Aaron Voss	Council Member	Jan 2022
Janet Gann	City Clerk/Treasurer	Indefinite
Erek Sittig	Attorney	Indefinite



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

Rob Sand  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

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

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, and each major fund of the City of Walford, Iowa, as of and for the year ended June 30, 2019, 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 Modified 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, 2018.

### Modified 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, 2018, 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, and each major fund of the City of Walford as of June 30, 2019, 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.

### Other Matters

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Walford's basic financial statements.

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 22 through 27 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 June 17, 2020 on our consideration of the City of Walford'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 Walford's internal control over financial reporting and compliance.

  
Marlys K. Gaston, CPA  
Deputy Auditor of State

June 17, 2020



**City of Walford**

## **Basic Financial Statements**

City of Walford

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2019

	Program Receipts		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>			
Governmental activities:			
Public safety	\$ 113,519	250	1,092
Public works	387,539	127,171	190,020
Culture and recreation	28,004	1,556	4,400
Community and economic development	38,261	1,100	-
General government	170,106	6,341	-
Total governmental activities	737,429	136,418	195,512
Business type activities:			
Water	-	-	-
Sewer	191,610	140,294	1,518
Total business type activities	191,610	140,294	1,518
Total	\$ 929,039	276,712	197,030
<b>General Receipts:</b>			
Property and other city tax levied for:			
General purposes			
Tax increment financing			
Local option sales tax			
Commercial/industrial tax replacement			
Unrestricted interest on investments			
Miscellaneous			
Total general receipts			
Change in cash basis net position			
Cash basis net position beginning of year			
Cash basis net position end of year			
<b>Cash Basis Net Position</b>			
Restricted:			
Streets			
Debt service			
Unrestricted			
<b>Total cash basis net position</b>			

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(112,177)	-	(112,177)
(70,348)	-	(70,348)
(22,048)	-	(22,048)
(37,161)	-	(37,161)
(163,765)	-	(163,765)
(405,499)	-	(405,499)
-	-	-
-	(49,798)	(49,798)
-	(49,798)	(49,798)
(405,499)	(49,798)	(455,297)
578,735	-	578,735
5,647	-	5,647
45,248	-	45,248
12,933	-	12,933
4,531	-	4,531
6,274	-	6,274
653,368	-	653,368
247,869	(49,798)	198,071
893,234	250,519	1,143,753
\$ 1,141,103	200,721	1,341,824
\$ 120,333	-	120,333
1,288	-	1,288
1,019,482	200,721	1,220,203
\$ 1,141,103	200,721	1,341,824

**Exhibit B**

## City of Walford

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

As of and for the year ended June 30, 2019

	Special Revenue			Total
	General	Road Use Tax	Urban Renewal Tax Increment	
Receipts:				
Property tax	\$ 574,752	-	-	574,752
Tax increment financing	-	-	5,647	5,647
Other city tax	49,231	-	-	49,231
Licenses and permits	2,795	-	-	2,795
Use of money and property	8,931	-	-	8,931
Intergovernmental	12,933	188,999	-	201,932
Charges for service	133,623	-	-	133,623
Miscellaneous	8,387	-	-	8,387
Total receipts	790,652	188,999	5,647	985,298
Disbursements:				
Operating:				
Public safety	113,519	-	-	113,519
Public works	209,379	178,160	-	387,539
Culture and recreation	28,004	-	-	28,004
Community and economic development	33,902	-	4,359	38,261
General government	170,106	-	-	170,106
Total disbursements	554,910	178,160	4,359	737,429
Excess of receipts over disbursements	235,742	10,839	1,288	247,869
Cash balances beginning of year	783,740	109,494	-	893,234
Cash balances end of year	\$ 1,019,482	120,333	1,288	1,141,103
<b>Cash Basis Fund Balances</b>				
Restricted for:				
Streets	\$ -	120,333	-	120,333
Debt service	-	-	1,288	1,288
Unassigned	1,019,482	-	-	1,019,482
Total cash basis fund balances	\$ 1,019,482	120,333	1,288	1,141,103

See notes to financial statements.

City of Walford

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

As of and for the year ended June 30, 2019

	<u>Enterprise</u>
	<u>Sewer</u>
Operating receipts:	
Charges for service	\$ 140,294
Operating disbursements:	
Business type activities	<u>191,610</u>
Deficiency of operating receipts under operating disbursements	(51,316)
Non-operating receipts:	
Interest on investments	<u>1,518</u>
Change in cash balances	(49,798)
Cash balances beginning of year	<u>250,519</u>
Cash balances end of year	<u>\$ 200,721</u>
<b>Cash Basis Fund Balances</b>	
Unrestricted	<u>\$ 200,721</u>

See notes to financial statements.

City of Walford

Notes to Financial Statements

June 30, 2019

**(1) Summary of Significant Accounting Policies**

The City of Walford is a political subdivision of the State of Iowa located in Linn and Benton Counties. It was first incorporated in 1954 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides sewer utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Linn and Benton County Assessor's Conference Boards, Linn and Benton County Emergency Management Commissions, Benton County Landfill Commission and Linn and Benton County Joint 911 Service Boards.

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:

Expendable 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.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. 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.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The City reports the following major proprietary fund:

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 classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2019, disbursements exceeded the amounts budgeted in the general government and business type activities functions prior to the budget amendment.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2019 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.

The City had no investments meeting the disclosure requirement of Governmental Accounting Standards Board Statement No. 72.

### **(3) 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](http://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.

Protection occupation members may retire at normal retirement age, which is generally age 55 and may retire any time after reaching age 50 with 22 or more years of covered employment.

The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-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 2019, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%. Protection occupation members contributed 6.81% of covered payroll and the City contributed 10.21% of covered payroll, for a total rate of 17.02%.

The City's contributions to IPERS for the year ended June 30, 2019 totaled \$12,018.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2019, the City reported a liability of \$77,896 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 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, 2018, the City's proportion was 0.001231%, which was an increase of 0.000003% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$10,554, \$20,615 and \$12,978, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2018 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, 2018 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2018 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

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	22.0%	6.01%
International equity	15.0	6.48
Global smart beta equity	3.0	6.23
Core plus fixed income	27.0	1.97
Public credit	3.5	3.93
Public real assets	7.0	2.91
Cash	1.0	(0.25)
Private equity	11.0	10.81
Private real assets	7.5	4.14
Private credit	3.0	3.11
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	\$ 132,205	77,896	32,339

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](http://www.ipers.org).

**(4) 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. For the year ended June 30, 2019, the City contributed \$19,267 and plan members eligible for benefits contributed \$4,082 to the plan. At June 30, 2019, 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 Walford 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, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	-
Active employees	2
Total	2

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, compensatory time 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, 2019, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 12,000
Compensatory time	2,000
Sick leave	30,000
Total	\$ 44,000

This liability has been computed based on rates of pay in effect at June 30, 2019.

**(6) 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.

**(7) Development Agreements**

In May 2015, the City entered into a development agreement with KEG Properties, LLC for the construction of a new commercial building for leasing and use as industrial garage/storage facilities. The City agreed to pay the developer an amount not to exceed \$52,000 subject to annual appropriation by the City Council. The agreement requires up to five annual economic development tax increment payments starting on June 1, 2018, provided the developer is in compliance with the terms of the agreement. During the year ended June 30, 2019, the City rebated \$4,359 of incremental property tax to the developer. At June 30, 2019, the remaining maximum balance to be paid on the agreement was \$43,804.

In May 2016, the City entered into a development agreement with Kingery Manufacturing Service, LLC for the construction of a new building for use in its equipment manufacturing business operations. The City agreed to pay the developer an amount not to exceed \$35,000 subject to annual appropriation by the City Council. The agreement requires up to five annual economic development grant payments, provided the developer is in compliance with the terms of the agreement. During the year ended June 30, 2019, the City rebated \$3,008 of city tax revenues to the developer. At June 30, 2019, the remaining maximum balance to be paid on the agreement was \$31,992.

**(8) 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, 2019, \$1,705 of property tax was diverted from the City under the urban renewal and economic development agreements.

**(9) Subsequent Event**

The COVID-19 outbreak is disrupting business across a range of industries in the United States and financial markets have experienced a significant decline. As a result, local, regional and national economies, including that of the City of Walford, may be adversely impacted. The extent of the financial impact of COVID-19 will depend on future developments, including the duration and spread, which are uncertain and cannot be predicted. Due to the uncertainties surrounding the outbreak, management cannot presently estimate the potential impact to the City's operations and finances.

## **Other Information**



City of Walford  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances –  
 Budget and Actual – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2019

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 574,752	-	574,752
Tax increment financing	5,647	-	5,647
Other city tax	49,231	-	49,231
Licenses and permits	2,795	-	2,795
Use of money and property	8,931	1,518	10,449
Intergovernmental	201,932	-	201,932
Charges for service	133,623	140,294	273,917
Miscellaneous	8,387	-	8,387
Total receipts	<u>985,298</u>	<u>141,812</u>	<u>1,127,110</u>
Disbursements:			
Public safety	113,519	-	113,519
Public works	387,539	-	387,539
Culture and recreation	28,004	-	28,004
Community and economic development	38,261	-	38,261
General government	170,106	-	170,106
Business type activities	-	191,610	191,610
Total disbursements	<u>737,429</u>	<u>191,610</u>	<u>929,039</u>
Excess (deficiency) of receipts over (under) disbursements	247,869	(49,798)	198,071
Balances beginning of year	893,234	250,519	1,143,753
Balances end of year	<u>\$ 1,141,103</u>	<u>200,721</u>	<u>1,341,824</u>

See accompanying independent auditor's report.

---

<u>Budgeted Amounts</u>		Final to
Original	Final	Total
		Variance
574,811	574,811	(59)
5,650	5,650	(3)
47,464	47,464	1,767
-	-	2,795
-	-	10,449
196,464	196,464	5,468
240,248	240,248	33,669
-	-	8,387
<u>1,064,637</u>	<u>1,064,637</u>	<u>62,473</u>
101,990	120,525	7,006
412,180	526,908	139,369
50,260	51,710	23,706
26,824	54,995	16,734
156,968	192,663	22,557
140,310	234,124	42,514
<u>888,532</u>	<u>1,180,925</u>	<u>251,886</u>
176,105	(116,288)	314,359
<u>905,174</u>	<u>905,174</u>	<u>238,579</u>
<u>1,081,279</u>	<u>788,886</u>	<u>552,938</u>

City of Walford

Notes to Other Information – Budgetary Reporting

June 30, 2019

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. 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 and the Enterprise Fund. 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 \$292,393. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2019, disbursements exceeded the amounts budgeted in the community and economic development and business type activities functions prior to the budget amendment.

---

City of Walford

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

	2019	2018
City's proportion of the net pension liability	0.001231%	0.001228%
City's proportionate share of the net pension liability	\$ 77,896	81,803
City's covered payroll	\$ 92,515	91,667
City's proportionate share of the net pension liability as a percentage of its covered payroll	84.20%	89.24%
IPERS' net position as a percentage of the total pension liability	83.62%	82.21%

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

See accompanying independent auditor's report.

---

City of Walford

Schedule of City Contributions

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

Other Information

	2019	2018	2017
Statutorily required contribution	\$ 12,018	8,262	8,186
Contributions in relation to the statutorily required contribution	<u>(12,018)</u>	<u>(8,262)</u>	<u>(8,186)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>
City's covered payroll	\$ 127,311	92,515	91,667
Contributions as a percentage of covered payroll	9.44%	8.93%	8.93%

GASB Statement No. 68 requires ten years of information be presented in this table.  
However, information for fiscal years 2016 and prior was not readily available.

See accompanying independent auditor's report.

City of Walford

Notes to Other Information – Pension Liability

Year ended June 30, 2019

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

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.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.



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

Rob Sand  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

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

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, and each major fund of Walford, Iowa, as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 17, 2020. The financial statements were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed modified opinions on the governmental activities, the business type activities, and each major fund since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance of July 1, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Walford'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 City of Walford's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Walford'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, we identified deficiencies in internal control we consider to be material weaknesses.

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 City of Walford's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A) and (B) 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 deficiency described in the accompanying Schedule of Findings as item (C) to be a significant deficiency.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Walford'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 the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2019 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.

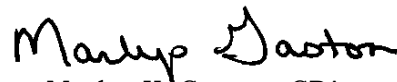
### City of Walford's Responses to the Findings

The City of Walford's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. City of Walford'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 Walford during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Marlys K. Gaston, CPA  
Deputy Auditor of State

June 17, 2020



City of Walford

Schedule of Findings

Year ended June 30, 2019

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) 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 or two individuals may have control over the following areas for which no compensating controls exist:

- (1) Accounting system – performing all accounting functions, including making journal entries and having custody of assets.
- (2) Cash – initiating cash receipt and disbursement functions, handling and recording cash and reconciling.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – entering pay rates, recordkeeping, preparing and distributing.
- (6) Utilities – entering rates, billing, collecting, depositing and posting.
- (7) Investments – custody and record keeping.

Cause – The City has 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 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.

Recommendation – The City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response – The City will review its control procedures to obtain required maximum internal control. With limited employees, the City will have the Mayor and one Council Member review all reconciliations.

Conclusion – Response accepted.

City of Walford

Schedule of Findings

Year ended June 30, 2019

(B) Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria – An effective internal control system provides for internal controls related to maintaining delinquent account listings, reconciling utility billings, collections and delinquent accounts and comparing utility collections to deposits to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances.

Condition – Although a reconciliation of utility billings, collections and delinquent accounts is prepared, there is no evidence the reconciliation was reviewed by an independent person.

Cause – Policies have not been established and procedures have not been implemented to ensure monthly utility reconciliations are independently reviewed.

Effect – This condition could result in unrecorded or misstated utility receipts, improper or unauthorized adjustments and write-offs and/or misstated delinquent account balances.

Recommendation – Procedures should be established to ensure monthly utility reconciliations are independently reviewed. The review should be documented by the signature or initials of the reviewer and the date of the review.

Response – The City will have the Mayor and one Council member review utility billings, collections and delinquent accounts. The review will be documented through signature or initials of the reviewer and the date of the review.

Conclusion – Response accepted.

(C) Disaster Recovery Plan

Criteria – Properly designed and implemented policies and procedures pertaining to disaster recovery help ensure the City will be able to provide continuity of services.

Condition – Although the City has a disaster recovery plan, certain items were not included in the plan. Specifically, the plan does not include identification of critical applications, identification of staff responsibilities, a requirement of the disaster recovery plan be kept off site, inventory of all hardware components and software applications, requirement that copies of all user documentation and policies and procedure manuals be located off site, and the requirement that extra stocks of paper supplies such as checks, warrants, purchase orders, etc. be located offsite. The plan also does not contain a requirement to test the plan.

Cause – The written disaster recovery plan adopted by the City did not incorporate all essential elements to provide continuity of service.

Effect – The failure to have a formal disaster recovery plan could result in the City's inability to function in the event of a disaster or continue City business without interruption.

City of Walford

Schedule of Findings

Year ended June 30, 2019

Recommendation – The City should include the above items in its written disaster recovery plan.

Response – The City will develop and adopt a disaster recovery plan to include all essential elements to provide continuity of service.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Walford

Schedule of Findings

Year ended June 30, 2019

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements in the community and economic development and business type activities functions exceeded the amounts budgeted prior to the budget amendment. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The budget will be amended in the future in accordance with Chapter 384.18 of the Code of Iowa, if applicable.

Conclusion – Response accepted.

- (2) 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.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (8) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid.

The City has entered into a \$52,000 economic development agreement which, pursuant to the agreement, provides for annual appropriation tax increment payments to the developer in each fiscal year. Until appropriated, the payments do not represent debt and, accordingly, should not have been certified as debt. At the time of the December 2018 certification, \$52,000 was certified as TIF debt rather than the \$13,735 which had been appropriated, an over certification of \$38,265.

City of Walford

Schedule of Findings

Year ended June 30, 2019

Recommendation – The City should decertify the \$38,265 over certified. Future TIF certifications should include only the amount the City Council has appropriated for the next fiscal year.

Response – The City will decertify the \$38,265 which was over certified. Future TIF certifications will include only the amount the City Council has appropriated for the next fiscal year.

Conclusion – Response accepted.

- (9) 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 obligations/TIF debt outstanding on the Levy Authority Summary were understated by \$5,252 as payments made on other TIF obligations in prior years incorrectly reduced a developer agreement obligation.

Recommendation – The City should ensure the debt amounts reported on the Levy Authority Summary are accurate.

Response – These items will be corrected on next year's report.

Conclusion – Response accepted.

City of Walford

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy  
Lesley R. Geary, CPA, Manager  
Brandon J. Vogel, Senior Auditor II  
Nicholas J. Gassman, Staff Auditor  
Andrew J. Dunne, Assistant Auditor