

CITY OF KALONA

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
June 30, 2005

Juli Ochs, CPA

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City Of Kalona

Officials
(before January 1, 2005)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------|--------------------|---------------------|
| Jerry Kauffman | Mayor | Dec. 2007 |
| Ken Herington | Mayor Pro tem | Dec. 2005 |
| Steve Lafaurie | Council Member | Dec. 2007 |
| Steve Reif | Council Member | Dec. 2005 |
| Claudine Miller | Council Member | Dec. 2007 |
| Steve Schlabaugh | Council Member | Dec. 2005 |
| Doug Morgan | City Administrator | Indefinite |
| Karen Christner | City Clerk | Indefinite |

(after January 1, 2005)

| | | |
|-----------------|--------------------|------------|
| Jerry Kauffman | Mayor | Dec. 2007 |
| Ken Herington | Mayor Pro tem | Dec. 2009 |
| Steve Lafaurie | Council Member | Dec. 2007 |
| David Bentley | Council Member | Dec. 2009 |
| Claudine Miller | Council Member | Dec. 2007 |
| Aaron Kos | Council Member | Dec. 2009 |
| Doug Morgan | City Administrator | Indefinite |
| Karen Christner | City Clerk | Indefinite |

CITY OF KALONA

Juli Ochs, CPA
1344 240th St.
Victor, Iowa 52347
319-647-2295 (Home)

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

I 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 Kalona, Iowa, as of and for the year ended June 30, 2005. These financial statements are the responsibility of city officials. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards of the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by officials, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than United States generally accepted accounting principles.

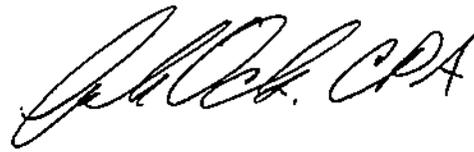
The financial statements referred to above do not include the financial transactions of the Kalona Library Board Foundation, Inc., a component unit of the City of Kalona pertaining to the Trust Funds which should be included to conform with U.S. generally accepted accounting principles.

In my opinion, except for the effect on the financial statements due to the exclusion of the Kalona Library Foundation, Inc., from the reporting entity, 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 Kalona as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my reports dated March 2, 2006 on my consideration of the City of Kalona's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 25 through 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in my audit of the aforementioned financial statements and, in my opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Juli Ochs, CPA". The signature is written in a cursive, flowing style.

Juli Ochs, CPA

March 2, 2006

City of Kalona

Management's Discussion & Analysis

The City of Kalona provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the City increased approximately 7.4% from fiscal year 2004 to 2005.
- Disbursements of the City increased approximately 17% from fiscal year 2004 to 2005 due to 3 major projects, Water – Sewer – Library Projects.
- The City's total cash basis net assets decreased approximately 27% or \$1,051,032 due mainly to funds received to over the 3 projects that were going on during this time. Of this amount, the assets of the governmental activities decreased approximately \$1,030,542 and the assets of the business type activities decreased by approximately \$20,490.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis shows basic financial statement and an overview of cash receipts and disbursements. The cash basis of accounting does not take into consideration accounts receivable or accounts payable.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This Statement includes information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

- Governmental Activities include public safety, public works, culture and recreation, general government, debt service, and capital projects. These activities are financed mainly by property taxes and state/federal grants.
- Business Type Activities include the water system, sanitary sewer system, and garbage. Fees charged to the users finance these activities.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and garbage funds, considered to be major funds of the City.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from \$3,156,870 to \$2,126,328. The analysis focuses on the changes in cash balances for governmental activities

Changes in Cash Basis Net Assets of Governmental Activities

| | Year ended June 30, | |
|--|---------------------|-----------|
| | 2005 | 2004 |
| Receipts and transfers: | | |
| Program receipts: | | |
| Charges for services | 72,118 | 106,057 |
| Operating Grants | 200,746 | 196,626 |
| General receipts: | | |
| Property tax | 565,156 | 526,056 |
| Debt Service | 763 | 53,270 |
| Local Option Sales Tax | 175,359 | 149,992 |
| TIF revenues | 256,747 | 164,421 |
| Unrestricted interest | 23,170 | 16,340 |
| Miscellaneous | 61,738 | 10,690 |
| Bond proceeds | - | 1,400,000 |
| Transfer – In | 39,861 | - |
| Total receipts and transfers | \$ 1,402,982 | 2,623,452 |
| Disbursements and transfers: | | |
| Public safety | 130,999 | 132,944 |
| Public works | 397,995 | 146,325 |
| Culture and recreation | 291,540 | 258,118 |
| Community and economic development | 254,635 | 185,098 |
| General government | 111,373 | 96,830 |
| Debt service | - | 52,866 |
| Capital projects | 1,246,982 | 101,705 |
| Total disbursements and transfers | \$ 2,433,524 | 973,886 |
| Increase (decrease) in cash basis net assets | (1,030,542) | 1,649,566 |
| Cash basis net assets beginning of year | 3,156,870 | 1,507,304 |
| Cash basis net assets end of year | \$ 2,126,328 | 3,156,870 |

Changes in Cash Basis Net Assets of Business Type Activities

| | <u>Year Ended June 30,</u> | |
|---|----------------------------|-------------|
| | <u>2005</u> | <u>2004</u> |
| Receipts: | | |
| Program receipts: | | |
| Charges for services | | |
| Water | 339,631 | 329,888 |
| Sewer | 190,105 | 195,147 |
| Garbage | 44,214 | 43,897 |
| General receipts: | | |
| Other general receipts | 3,940 | 3,959 |
| Bond proceeds | 166,838 | 1,382,574 |
| Total receipts | \$ 744,728 | 1,955,465 |
| | | |
| Disbursements and transfers: | | |
| Water | 181,905 | 129,958 |
| Sewer | 120,396 | 91,136 |
| Garbage | 40,780 | 39,779 |
| Debt Service | 224,194 | 123,038 |
| Capital Projects | 158,081 | 1,380,962 |
| Transfers | 39,861 | - |
| Total disbursements and transfers | \$ 765,218 | 1,764,873 |
| | | |
| Increase in cash basis net assets | (20,490) | 190,592 |
| | | |
| Cash basis net assets beginning of year | 674,662 | 484,070 |
| | | |
| Cash basis net assets end of year | \$ 654,172 | 674,662 |

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Kalona, Iowa, completed the year, its funds reported a combined fund balance of \$2,780,500, which is a decrease of \$1,051,032. Major reasons for changes in balances from fiscal year 2004 are:

- The General Fund continues to receive less money because of budget cuts from the State.
- The Road Use Tax Fund revenue is based on per capita dollars from the state.
- The Tax Increment Financing Fund revenues increased by \$119,665 in fiscal year 2005. Revenue increase was because of additional increment available to be used to pay towards development agreements formed with the City.
- The Local Option Sales Tax Fund revenues increased by \$57,806 from fiscal year 2004. Revenue increase was due to increased sales activity. Expenditures increased with the debt of the Library Project being paid with these funds.

- The Capital Improvement Fund was the major reason for the decrease in the ending fund balance because of the completion of most of the Library Project.
- The Debt Service Fund revenues and expenditures were less because of bond debt being paid off.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Utility Fund balance increased by \$35,256 from fiscal year 2004 due mainly to a dry summer and high water usage.

The Sewer Utility Fund balance decreased by \$24,927 from fiscal year 2004 due mainly to the completion of the Lagoon Project.

BUDGETARY HIGHLIGHTS

The City amended its budget on May 16, 2005 resulting in an increase of receipts of approximately \$94,014 disbursements of approximately \$1,878,548 related to various projects started in fiscal year 2004.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$3,327,000 in bonds and other long-term debt, compared to approximately \$3,529,000 last year, as shown below.

Outstanding Debt at Year-End

| | <u>Year Ended June 30,</u> | |
|--|----------------------------|------------------|
| | <u>2005</u> | <u>2004</u> |
| General Obligation Corporate Purpose Bonds | | |
| 1997 Water Project (refinancing) | - | 40,000 |
| 1997 Water Project | 175,000 | 200,000 |
| 1995 Sewer Project (State Revolving Fund) | 296,000 | 319,000 |
| 2003 Water Project (State Revolving Fund) | 1,027,000 | 1,067,000 |
| 2003 Sewer Project (State Revolving Fund) | 484,000 | 503,000 |
| 2004 Library Project | <u>1,345,000</u> | <u>1,400,000</u> |
| Total | \$ <u>3,327,000</u> | <u>3,529,000</u> |

Debt decreased as a result of paying off the debt from the 1997 Water Project financing.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City of Kalona's elected and appointed officials considered factors such as tax rates and fees that will be charged for various City activities when they adopted the 2006 budget.

Projects being continued, completed for fiscal year 2006 are:

- Water Tower Project
- Library Project

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for all money received. If you have questions about this report or need additional information, please contact Douglas W. Morgan, City Administrator, or Karen Christner, City Clerk, at Box 1213, Kalona, Iowa 52247 or call 319-656-2310.

City of Kalona
Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2005

| | Disbursements | Program Receipts | | |
|------------------------------------|---------------------|---------------------|--|--|
| | | Charges for Service | Operating Grants, Contributions, and Restricted Interest | Capital Grants, Contributions, and Restricted Interest |
| Functions/Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 130,999 | 312 | - | - |
| Public works | 397,995 | - | 190,654 | - |
| Culture and recreation | 291,540 | 67,323 | 10,092 | - |
| Community and economic development | 254,635 | 2,890 | - | - |
| General government | 111,373 | 1,593 | - | - |
| Debt service | - | - | - | - |
| Capital projects | 1,246,982 | - | - | - |
| Total governmental activities | 2,433,524 | 72,118 | 200,746 | - |
| Business type activities | | | | |
| Water | 445,719 | 339,631 | - | - |
| Sewer | 238,858 | 190,105 | - | - |
| Garbage | 40,780 | 44,214 | - | - |
| Total business type activities | 725,357 | 573,950 | - | - |
| Total | \$ 3,158,881 | 646,068 | 200,746 | - |

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
Local option sales tax
Grants and contributions not restricted to a specific purpose
Unrestricted interest on investments
Bond proceeds
Miscellaneous

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash Basis Net Assets

Restricted

 Employee Benefits
 Urban renewal projects
 Debt service
 Capital Projects

Unrestricted

Total cash basis net assets

| <u>Net (Disbursements) Receipts and Changes in Cash Basis Net Assets</u> | | |
|--|-------------------------------------|--------------------|
| <u>Governmental Activities</u> | <u>Business Type Activities</u> | <u>Total</u> |
| (130,687) | - | (130,687) |
| (207,341) | - | (207,341) |
| (214,125) | - | (214,125) |
| (251,745) | - | (251,745) |
| (109,780) | - | (109,780) |
| - | - | - |
| <u>(1,246,982)</u> | <u>-</u> | <u>(1,246,982)</u> |
| <u>(2,160,660)</u> | <u>-</u> | <u>(2,160,660)</u> |
| - | (106,088) | (106,088) |
| - | (48,753) | (48,753) |
| - | 3,434 | 3,434 |
| - | <u>(151,407)</u> | <u>(151,407)</u> |
| <u>(2,160,660)</u> | <u>(151,407)</u> | <u>(2,312,067)</u> |
| \$ 565,156 | - | 565,156 |
| 256,747 | - | 256,747 |
| 763 | - | 763 |
| 175,359 | - | 175,359 |
| 7,324 | - | 7,324 |
| 23,170 | 3,940 | 27,110 |
| - | 166,838 | 166,838 |
| 61,738 | - | 61,738 |
| 39,861 | (39,861) | - |
| <u>1,130,118</u> | <u>130,917</u> | <u>1,261,035</u> |
| (1,030,542) | (20,490) | (1,051,032) |
| 3,156,870 | 674,662 | 3,831,532 |
| <u>2,126,328</u> | <u>654,172</u> | <u>2,780,500</u> |
| 40,158 | - | 40,158 |
| 161,220 | - | 161,220 |
| 136,941 | - | 136,941 |
| 81,413 | - | 81,413 |
| 1,706,596 | 654,172 | 2,360,768 |
| <u>\$ 2,126,328</u> | <u>654,172</u> | <u>2,780,500</u> |

City of Kalona

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

As of and for the year ended June 30, 2005

| | General | Special Revenue | | | Capital |
|---|---------------------|--------------------|-----------------------------------|------------------------------|--------------------------------|
| | | Road Use Tax | Urban Renewal Tax Increment | Local Option Sales Tax | Projects Library Project |
| Receipts: | | | | | |
| Property Tax | \$ 497,460 | \$ - | \$ - | \$ - | \$ - |
| Tax increment financing collections | - | - | 256,747 | - | - |
| Other City Tax | 16,394 | - | - | 175,359 | - |
| Use of money and property | 30,519 | - | - | - | - |
| Licenses and permits | 3,633 | - | - | - | - |
| Intergovernmental | 13,199 | 190,654 | - | - | - |
| Charges for services | 67,064 | - | - | - | - |
| Miscellaneous | 10,776 | - | - | - | 30,100 |
| Total Receipts | 639,045 | 190,654 | 256,747 | 175,359 | 30,100 |
| Disbursements: | | | | | |
| Operating: | | | | | |
| Public Safety | 130,999 | - | - | - | - |
| Public Works | 86,874 | 300,664 | - | - | - |
| Health and social services | - | - | - | - | - |
| Culture and recreation | 264,390 | - | - | - | - |
| Community and economic development | - | - | 137,082 | 117,553 | - |
| General government | 101,616 | - | - | - | - |
| Debt service | - | - | - | - | - |
| Capital projects | - | - | - | - | 1,246,982 |
| Total Disbursements | 583,879 | 300,664 | 137,082 | 117,553 | 1,246,982 |
| Excess (deficiency) of receipts over (under) disbursements | 55,166 | (110,010) | 119,665 | 57,806 | (1,216,882) |
| Other financing sources (uses): | | | | | |
| Operating transfers in (out) | 44,253 | - | - | - | - |
| Total other financing sources (uses) | 44,253 | - | - | - | - |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements & other financing uses | 99,419 | (110,010) | 119,665 | 57,806 | (1,216,882) |
| Balance beginning of year | 1,121,896 | 366,627 | 41,555 | 170,858 | 1,298,295 |
| Balance end of year | \$ 1,221,315 | \$ 256,617 | \$ 161,220 | \$ 228,664 | \$ 81,413 |
| Cash Basis Fund Balances | | | | | |
| Reserved: | | | | | |
| Debt Service | - | - | - | - | - |
| Unreserved: | | | | | |
| General Fund | 1,221,315 | - | - | - | - |
| Special Revenue Funds | - | 256,617 | 161,220 | 228,664 | - |
| Capital Project Fund | - | - | - | - | 81,413 |
| Total cash basis fund balances | 1,221,315 | 256,617 | 161,220 | 228,664 | 81,413 |

| Other Nonmajor Governmental Funds | Total |
|--|---------------------|
| \$ 68,459 | \$ 565,919 |
| - | 256,747 |
| 1,976 | 193,729 |
| 781 | 31,300 |
| - | 3,633 |
| - | 203,853 |
| - | 67,064 |
| - | 40,876 |
| <u>71,216</u> | <u>1,363,121</u> |
| - | 130,999 |
| 10,457 | 397,995 |
| - | - |
| 27,150 | 291,540 |
| - | 254,635 |
| 9,757 | 111,373 |
| - | - |
| - | 1,246,982 |
| <u>47,364</u> | <u>2,433,524</u> |
| <u>23,852</u> | <u>(1,070,403)</u> |
| (4,392) | 39,861 |
| (4,392) | 39,861 |
| <u>19,460</u> | <u>(1,030,542)</u> |
| 157,639 | 3,156,870 |
| <u>\$ 177,099</u> | <u>\$ 2,126,328</u> |
| 136,941 | 136,941 |
| - | 1,221,315 |
| 40,158 | 686,659 |
| - | 81,413 |
| <u>177,099</u> | <u>2,126,328</u> |

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

As of and for the year ended June 30, 2005

Enterprise Funds

| | Water | Sewer | Garbage | Total |
|---|-------------------|-------------------|------------------|-------------------|
| Receipts: | | | | |
| License and permits | 5,382 | 5,030 | - | 10,412 |
| Use of money and property | 1,091 | 2,849 | - | 3,940 |
| Charges for services | 334,249 | 185,075 | 44,214 | 563,538 |
| Total Receipts | <u>340,722</u> | <u>192,954</u> | <u>44,214</u> | <u>577,890</u> |
| Disbursements: | | | | |
| Business type activities | 445,719 | 238,858 | 40,780 | 725,357 |
| Total Disbursements | <u>445,719</u> | <u>238,858</u> | <u>40,780</u> | <u>725,357</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>(104,997)</u> | <u>(45,904)</u> | <u>3,434</u> | <u>(147,467)</u> |
| Other financing sources (uses): | | | | |
| Bond proceeds: | | | | |
| SRF Loan | 140,253 | 26,585 | - | 166,838 |
| Operating transfers in (out) | - | (5,608) | (34,253) | (39,861) |
| Total other financing sources (uses) | 140,253 | 20,977 | (34,253) | 126,977 |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements & other financing uses | <u>35,256</u> | <u>(24,927)</u> | <u>(30,819)</u> | <u>(20,490)</u> |
| Balance beginning of year | 153,217 | 462,712 | 58,733 | 674,662 |
| Balance end of year | <u>\$ 188,473</u> | <u>\$ 437,785</u> | <u>\$ 27,914</u> | <u>\$ 654,172</u> |
| Cash Basis Fund Balances | | | | |
| Unreserved | 188,473 | 437,785 | 27,914 | 654,172 |
| Total cash basis fund balances | <u>188,473</u> | <u>437,785</u> | <u>27,914</u> | <u>654,172</u> |

See notes to financial statements

City of Kalona
Notes to Financial Statements
June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Kalona is a political subdivision of the State of Iowa located in Washington County. It was first incorporated in 1879 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

A. Reporting Entity

For financial reporting purposes, City of Kalona 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

Excluded Component Unit

The Kalona Library Foundation, Inc is a non-profit organization legally separate from the City. The Foundation has been created for the sole purpose of raising funds to support the Kalona Library and has the potential to provide benefits to the City of Kalona Library. The Library Foundation is governed by a board not appointed by the Library Board and the Foundation's operating budget is not subject to the approval of the Library Board.

Related Organization

The Friends of the Kalona Library is an organization separate from the City. The Friends has been created for the sole purpose of raising funds to support the Kalona Library but is not financially accountable to the City.

Jointly Governed Organizations

The City also 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: Washington County Joint E-911 Service Board, and Washington County Assessor's Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Local Option Sales Tax Fund is used to account for projects financed by the Local Option Sales Tax.

Capital Projects:

The Capital Projects Funds are used to account for construction projects that are longer than one year in length.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentality's; 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's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

(3) Bonds and Notes Payable

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

| Year Ending June 30, | General Obligation Bonds | | Revenue Bonds | | Totals | |
|-------------------------|--------------------------|------------------|--------------------|------------------|---------------------|--------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2006 | 80,000 | 56,106 | 84,000 | 58,768 | 164,000 | 114,874 |
| 2007 | 80,000 | 54,111 | 87,000 | 55,878 | 167,000 | 109,989 |
| 2008 | 80,000 | 51,953 | 89,000 | 52,884 | 169,000 | 104,837 |
| 2009 | 80,000 | 49,605 | 94,000 | 49,814 | 174,000 | 99,420 |
| 2010 | 85,000 | 47,068 | 97,000 | 46,562 | 182,000 | 93,630 |
| 2011 | 85,000 | 44,213 | 99,000 | 43,206 | 184,000 | 87,419 |
| 2012 | 85,000 | 41,213 | 103,000 | 39,774 | 188,000 | 80,987 |
| 2013 | 65,000 | 38,050 | 107,000 | 36,206 | 172,000 | 74,256 |
| 2014 | 65,000 | 35,937 | 110,000 | 32,488 | 175,000 | 68,426 |
| 2015 | 65,000 | 33,695 | 114,000 | 28,664 | 179,000 | 62,359 |
| 2016 | 70,000 | 31,355 | 81,000 | 24,690 | 151,000 | 56,045 |
| 2017 | 70,000 | 28,730 | 84,000 | 22,260 | 154,000 | 50,990 |
| 2018 | 75,000 | 26,035 | 86,000 | 19,740 | 161,000 | 45,775 |
| 2019 | 80,000 | 23,072 | 88,000 | 17,160 | 168,000 | 40,232 |
| 2020 | 85,000 | 19,833 | 91,000 | 14,520 | 176,000 | 34,352 |
| 2021 | 85,000 | 16,305 | 94,000 | 11,790 | 179,000 | 28,095 |
| 2022 | 90,000 | 12,693 | 97,000 | 8,970 | 187,000 | 21,663 |
| 2023 | 95,000 | 8,777 | 99,000 | 6,060 | 194,000 | 14,838 |
| 2024 | 100,000 | 4,550 | 103,000 | 3,090 | 203,000 | 7,640 |
| Total | \$1,520,000 | \$623,301 | \$1,807,000 | \$572,524 | \$ 3,327,000 | \$1,195,825 |

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund. However, during the year, \$65,000 of bond principal was paid from the Enterprise Fund.

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient transfers shall be made into a separate and special fund to pay current expenses. The fund shall be known as the Sewer/Water Utility Operation and Maintenance Fund. There shall be deposited in the fund each month an amount sufficient to meet the current expenses

of the month plus an amount equal to 1/12th of expenses payable on an annual basis such as insurance. This fund was not established during the fiscal year.

- (c) Moneys shall next be disbursed to a separate and special fund to pay principal of and interest on the Notes and Parity Obligations known as the Sewer/Water Revenue Note Principal and Interest Sinking Fund (the "Sinking Fund"). The required amount to be deposited in the Sinking Fund in any month shall be an amount equal to 1/6th of the installment of interest coming due on the next payment and 1/12th of the installment of principal coming due on the next payment date. This fund was not established during the fiscal year.

(4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered percentages respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2003, 2004, and 2005, were \$14,185, \$14,773 and \$15,590 respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's liability for earned vacation and comp time leave termination payments payable to employees at June 30, 2005 is \$10,101 for vacation and \$6,076 for comp time, for a total liability of \$16,177.

(6) Workers Compensation

The City is a member of the Iowa Municipalities Worker's Compensation Association (IMWCA) which provides worker's compensation coverage to its members. The members own an interest in the assets of the claims payment fund.

(7) Risk Management

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

(8) Service Agreements

The City has an agreement with Washington County to provide police protection for its citizens. The City paid \$102,801 under this agreement during the year ended June 30, 2005.

(9) Construction Contracts

The City entered into various construction contracts for their water project totaling approximately \$5,250 and their Library project totaling \$58,873. These construction contracts will be funded with local sources and bond revenues from this fiscal year.

(10) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2005, disbursements in the Business Type activities function exceeded the amounts budgeted. Additionally, during the month of April disbursements in the Public Works, Capital Projects and Business Type activities functions exceeded the amounts budgeted prior to an amendment in May of 2005.

(11) Subsequent Events

On July 11, 2005, Facility Revenue Bond, Iowa Mennonite School Project, in the amount of \$1,300,000 was issued. This revenue bond is issued for the purpose of financing the cost of constructing, equipping and furnishing a fine arts facility on the Iowa Mennonite School Campus. These bonds will be a special limited obligation of the City and shall not be payable from or charged upon any funds other than Loan Repayments made by the Iowa Mennonite School, a Tax Exempt Organization. The bonds will not constitute a debt of the City within any constitutional or statutory limitation.

REQUIRED SUPPLEMENTARY INFORMATION

City of Kalona

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

Required Supplementary Information

| | Governmental Funds Actual | Proprietary Funds Actual | Net | Budgeted Original |
|---|---------------------------------|--------------------------------|---------------------|----------------------|
| Receipts: | | | | |
| Property Tax | \$ 565,919 | \$ - | \$ 565,919 | \$ 551,132 |
| Tax increment financing collections | 256,747 | - | 256,747 | 256,066 |
| Other City Tax | 193,729 | - | 193,729 | 140,463 |
| Use of money and property | 31,300 | 3,940 | 35,240 | - |
| Licenses and permits | 3,633 | 10,412 | 14,045 | 3,000 |
| Intergovernmental | 203,853 | - | 203,853 | 191,465 |
| Charges for services | 67,064 | 563,538 | 630,602 | 750,715 |
| Miscellaneous | 40,876 | - | 40,876 | 28,200 |
| Total Receipts | <u>1,363,121</u> | <u>577,890</u> | <u>1,941,011</u> | <u>1,921,041</u> |
| Disbursements: | | | | |
| Public Safety | 130,999 | - | 130,999 | 134,415 |
| Public Works | 397,995 | - | 397,995 | 303,614 |
| Culture and recreation | 291,540 | - | 291,540 | 331,274 |
| Community and economic development | 254,635 | - | 254,635 | 377,328 |
| General government | 111,373 | - | 111,373 | 112,476 |
| Debt service | - | - | - | - |
| Capital projects | 1,246,982 | - | 1,246,982 | - |
| Business Type | - | 725,357 | 725,357 | 426,369 |
| Total Disbursements | <u>2,433,524</u> | <u>725,357</u> | <u>3,158,881</u> | <u>1,685,476</u> |
| Excess (deficiency) of receipts over (under) disbursements | (1,070,403) | (147,467) | (1,217,870) | 235,565 |
| Other financing sources (uses): | | | | |
| Bond Proceeds | | | | |
| State Revolving Fund Loan | - | 126,977 | 126,977 | - |
| General Obligation Bond | 39,861 | - | - | - |
| Total other financing sources (uses) | 39,861 | 126,977 | 166,838 | - |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements & other financing uses | <u>(1,030,542)</u> | <u>(20,490)</u> | <u>(1,051,032)</u> | <u>235,565</u> |
| Balance beginning of year | 3,156,870 | 674,662 | 3,831,532 | 2,016,591 |
| Balance end of year | <u>\$ 2,126,328</u> | <u>\$ 654,172</u> | <u>\$ 2,780,500</u> | <u>\$ 2,252,156</u> |

| Amounts | Variance |
|------------------|----------------------------|
| Final | Favorable (Unfavorable) |
| \$ 551,132 | \$ 14,787 |
| 256,066 | 681 |
| 121,262 | 72,467 |
| 10,270 | 24,970 |
| 13,760 | 285 |
| 210,590 | (6,737) |
| 632,996 | (2,394) |
| 21,100 | 19,776 |
| <u>1,817,176</u> | <u>123,835</u> |

| | |
|------------------|----------------|
| 132,481 | 1,482 |
| 554,708 | 156,713 |
| 364,852 | 73,312 |
| 380,021 | 125,386 |
| 124,975 | 13,602 |
| - | - |
| 1,316,549 | 69,567 |
| 690,438 | (34,919) |
| <u>3,564,024</u> | <u>179,787</u> |

(1,746,848)

-
197,879

197,879

(1,548,969)

2,016,591

\$ 467,622

City of Kalona

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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 Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted included disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Business Type 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, the budget amendment increased budgeted disbursements by \$1,878,548. The budgeted amendment is reflected in the final budgeted amount.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the Business Type activities function.

OTHER SUPPLEMENTARY INFORMATION

—

—

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

As of and for the year ended June 30, 2005

| | <u>Special Revenue</u> | | |
|---|--------------------------|---------------------|-------------------|
| | <u>Employee Benefits</u> | <u>Debt Service</u> | <u>Total</u> |
| Receipts: | | | |
| Property Tax | \$ 67,696 | \$ 763 | \$ 68,459 |
| Other City Tax | 1,976 | - | 1,976 |
| Use of Money and Property | - | 781 | 781 |
| Total Receipts | <u>69,672</u> | <u>1,544</u> | <u>71,216</u> |
| Disbursements: | | | |
| Operating: | | | |
| Public Works | 10,457 | - | 10,457 |
| Culture and recreation | 27,150 | - | 27,150 |
| General government | 9,757 | - | 9,757 |
| Total Disbursements | <u>47,364</u> | <u>-</u> | <u>47,364</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>22,308</u> | <u>1,544</u> | <u>23,852</u> |
| Other financing sources (uses): | | | |
| Operating transfers in (out) | - | (4,392) | (4,392) |
| Total other financing sources (uses) | - | (4,392) | (4,392) |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements & other financing uses | <u>22,308</u> | <u>(2,848)</u> | <u>19,460</u> |
| Balance beginning of year | 17,850 | 139,789 | 157,639 |
| Balance end of year | <u>\$ 40,158</u> | <u>\$ 136,941</u> | <u>\$ 177,099</u> |
| Cash Basis Fund Balances | | | |
| Reserved: | | | |
| Debt Service | - | 136,941 | 136,941 |
| Unreserved: | | | |
| Special Revenue Funds | 40,158 | - | 40,158 |
| Total cash basis fund balances | <u>40,158</u> | <u>136,941</u> | <u>177,099</u> |

City of Kalona

Statement of Indebtedness

Year ended June 30, 2005

| | Date of Issue | Interest Rates | Amount Originally Issued | Balance Beginning of Year | Redeemed During Year |
|-----------------------------|-------------------|----------------|--------------------------|---------------------------|----------------------|
| General Obligation Bonds | | | | | |
| Water | April 1, 1997 | 4.10 - 5.45% | \$ 237,898 | \$ 40,000 | \$ 40,000 |
| Water | April 1, 1997 | 4.10 - 5.45% | 350,000 | 200,000 | 25,000 |
| Library | June 1, 2004 | 1.30 - 4.55% | 1,400,000 | 1,400,000 | 55,000 |
| Total General Obligation | | | | | <u>120,000</u> |
| Note Payable: | | | | | |
| State Revolving Funds Loans | | | | | |
| Sewer | February 13, 1995 | 4.54% | 590,000 | 319,000 | 23,000 |
| Water | August 26, 2003 | 3.00% | 1,067,000 | 1,067,000 | 40,000 |
| Sewer | December 12, 2003 | 3.00% | 503,000 | 503,000 | 19,000 |
| Total SRF Loans | | | | | <u>82,000</u> |
| Total | | | | <u>\$ 872,000</u> | <u>\$ 202,000</u> |

| Balance End of Year | Interest Paid | Interest Due and Unpaid |
|---------------------------|-------------------|-------------------------------|
| \$ - | \$ 1,920 | \$ - |
| 175,000 | 10,288 | - |
| 1,345,000 | 47,732 | - |
| <u>1,520,000</u> | <u>59,940</u> | <u>-</u> |
| 296,000 | 14,482 | - |
| 1,027,000 | 32,010 | - |
| 484,000 | 15,090 | - |
| <u>1,807,000</u> | <u>61,582</u> | <u>-</u> |
| <u>\$ 3,327,000</u> | <u>\$ 121,522</u> | <u>\$ -</u> |

City of Kalona

Bond and Note Maturities

June 30, 2005

General Obligation Bonds

| Year Ending June 30, 2005 | Water Bond Issued April 1, 1997 | | Library Bond Issued June 1, 2004 | |
|---------------------------------|------------------------------------|-------------------|-------------------------------------|---------------------|
| | Interest Rate | Amount | Interest Rate | Amount |
| 2006 | 4.90% | 25,000 | 1.40% | 55,000 |
| 2007 | 5.00% | 25,000 | 1.65% | 55,000 |
| 2008 | 5.10% | 25,000 | 1.95% | 55,000 |
| 2009 | 5.20% | 25,000 | 2.25% | 55,000 |
| 2010 | 5.30% | 25,000 | 2.55% | 60,000 |
| 2011 and beyond | various | 50,000 | various | 1,065,000 |
| Total | | <u>\$ 175,000</u> | | <u>\$ 1,345,000</u> |

State Revolving Funds

| Year Ending June 30, 2005 | Sewer Revenue Notes Issued February 13, 1995 | | Sewer Revenue Notes Issued December 12, 2003 | |
|---------------------------------|---|-------------------|---|-------------------|
| | Interest Rate | Amount | Interest Rate | Amount |
| 2006 | 4.54% | 24,000 | 3.00% | 19,000 |
| 2007 | 4.54% | 25,000 | 3.00% | 20,000 |
| 2008 | 4.54% | 26,000 | 3.00% | 20,000 |
| 2009 | 4.54% | 28,000 | 3.00% | 21,000 |
| 2010 | 4.54% | 29,000 | 3.00% | 22,000 |
| 2011 and beyond | 4.54% | 164,000 | 3.00% | 382,000 |
| Total | | <u>\$ 296,000</u> | | <u>\$ 484,000</u> |

Water Revenue Notes
Issued August 26, 2003

| <u>Interest Rate</u> | <u>Amount</u> | <u>Total</u> |
|--------------------------|---------------------|---------------------|
| 3.00% | 41,000 | 164,000 |
| 3.00% | 42,000 | 167,000 |
| 3.00% | 43,000 | 169,000 |
| 3.00% | 45,000 | 174,000 |
| 3.00% | 46,000 | 182,000 |
| 3.00% | 810,000 | 2,471,000 |
| | <u>\$ 1,027,000</u> | <u>\$ 3,327,000</u> |

Juli Ochs, CPA
1344 240th St.
Victor, Iowa 52347
319-647-2295 (Home)

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

I have audited the financial statements of the City of Kalona, Iowa, as of and for the year ended June 30, 2005, and have issued my report thereon dated March 2, 2006. My report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with United States 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.

Compliance

As part of obtaining reasonable assurance about whether the City of Kalona's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Governmental Auditing Standards. Additionally, I noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Entity's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during my audit of the general purpose financial statements of the City of Kalona. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior audit statutory comments have been resolved except for item 1,4,6,10,11 and 14.

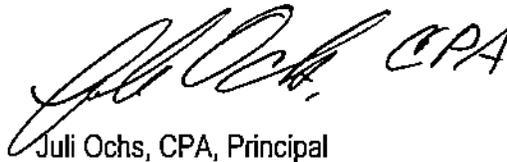
Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Kalona's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Kalona's ability to record, process, summarize and report financial data

consistent with the assertions of city officials in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe items 1, 2, 5 and 11 are material weaknesses. Prior year reportable conditions have been resolved except for items 1 and 11. This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Kalona and other parties to whom the City of Kalona may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the City of Kalona during the course of my audit. Should you have any questions concerning any of the above matters, I would be pleased to discuss them with you at your convenience.



Juli Ochs, CPA, Principal

March 2, 2006

CITY OF KALONA

Schedule of Findings

Year ended June 30, 2005

The following comments about the City of Kalona operations for the year ended June 30, 2005, are based exclusively on knowledge obtained from procedures performed during our audit of financial statements of the City.

REPORTABLE CONDITIONS

- (1) Segregation of Duties – One important element in designing an internal control structure that safeguards assets and reasonably ensures the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another.

During our review of the city's control procedures, we noted that one person has control over one or more of the following areas:

Accounting system – general journal/general ledger/journal entry function and custody of assets

Receipts – collecting, depositing, journalizing, posting, and reconciling.

Payroll – preparation and distribution.

Utilities – collections, depositing and recording.

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

Response – Since there are only three employees at city hall, it is difficult to segregate duties. Duties are segregated to the best of our ability.

Conclusion – Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

OTHER FINDINGS RELATED TO STATUTORY REPORTING

- (2) Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the Business Type activities function. Additionally, the budget was not amended prior to expenditures being made in the Business Type activities, Public Works and Capital Project functions in the month of April. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – City will amend in a timely manner in the future.

Conclusion – Response accepted.

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

- (4) Council Minutes – No transactions were found that I believe should have been approved in the Council minutes but were not.

Minutes of the August, and December, 2004 Council meetings were not published as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish minutes as required by Chapter 372.13(6) of the Code of Iowa.

Response – Our official publication has requested us to email all minutes, notices, etc. for their convenience. The same were emailed for a timely publishing, but if they do not have room then they set them off to the next week, when they have room. I am presuming this is what happened.

Conclusion – Response accepted

- (5) Sewer/Water Revenue Note – The Sewer/Water Revenue Note stipulates that a Sewer/Water Utility Operation and Maintenance, and Sewer/Water Sinking Fund be established. These funds have not been established.

Recommendation – An Operation and Maintenance Fund and Sinking fund should be established to comply with the requirements of the Water/Sewer Revenue Note.

Response – The City has established a separate money market account to act as a combined sinking and operation/maintenance fund.

Conclusion – As this is a good idea, the revenue note requirements should be followed.

- (6) Payroll Time Cards Approval– During the fiscal year it was determined that many of the time cards from the Library Department were not approved.

Recommendation – Time cards should be reviewed by supervisors or department heads each time period and initialed to indicate their approval.

Response – The City will inform the library.

Conclusion – This was a prior year comment, please work towards compliance.

- (7) Questionable Disbursements –I noted no disbursements that meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

- (9) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa. However, it was noted that the City's investment policy is not current and in compliance with the provisions of Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should update their investment policy to comply with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – We are working towards adopting a current investment policy.

Conclusion – Response accepted.

- (10) Cash Drawer – The City does not include the cash drawer in the fund balance. Chapter 384.20 of the Code of Iowa states in part that a City shall keep accounts which show an accurate and detailed statement of all public funds.

Recommendation – The City should include all cash funds in the fund balance to properly account for all funds.

Response – We will include the same in the future.

Conclusion – Response accepted.

- (11) General Obligation Loan Notes – The Water General Obligation Notes were paid for directly from the Water Fund. The Library General Obligation Note was paid for directly from Local Option Sales Tax Fund. Section 384.4 of the Code of Iowa states "Moneys pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the debt service fund."

Recommendation – The City should transfer water funds designated for payments on bonds to debt service and then make bond payments out of debt service.

Response – The City will take it under advisement.

Conclusion – The city should consider the implications of paying the note out of the Water Fund.

- (12) Library Minutes – Minutes of the October and November, 2004 and February, March, May and June 2005 minutes were not approved by signature.

Recommendation – The Library should approve the minutes and evidence approval by signature.

Response – The City has informed the Library of the appropriate procedure.

Conclusion – Response accepted.

- (13) City Code of Ordinances – The City has not compiled the City ordinances within the past five years.

Recommendation – Chapter 380.8 of the Code of Iowa states in part, "At least once every five years, a City shall compile a code of ordinances containing all City ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances, and ordinances vacating streets and alleys." The City should compile the City ordinances as required.

Response – We are currently in the process of compiling a new city ordinance.

Conclusion – Response accepted.

(14) Cash Balance Variance – The cities books differ from the bank balances by \$11,732 and the financial report figures differ from the cities books by \$10,490.

Recommendation – The City should investigate this variance and determine why the balances for the City are different.

Response – We are aware of the situation, we believe something has been recorded incorrectly. Our computer software provider is investigating the problem and through continuous investigation we believe the variances will be resolved.

Conclusion – Having reviewed these variances exhaustively with the city clerk, I believe the situation will be solved in a timely manner, response accepted.