

CITY OF KANAWHA

INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2005

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CITY OF KANAWHA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Sherry Johnson	Mayor	Jan 2008
Paula Abbas	Council Member	Jan 2008
Ray Bassett	Council Member	Jan 2008
Ida Eekhoff	Council Member	Jan 2006
Terry Johnson	Council Member	Jan 2006
David Verbrugge	Council Member	Jan 2006
Sharon Grimm	City Clerk	July 2006
Earl Hill	Attorney	July 2006

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Kanawha, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Kanawha's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In our opinion, 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 Kanawha 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, we have also issued our report dated November 9, 2005 on our consideration of the City of Kanawha's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 15 and 27 and 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Kanawha's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

November 9, 2005

Renner & Birchem, P.C.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Kanawha 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.

### 2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 1.01%, or approximately \$ 4,500 from fiscal 2004 to fiscal 2005. Property tax increased approximately \$ 17,000 and intergovernmental decreased approximately \$ 37,000.
- Disbursements increased 5.02 % or approximately \$23,000 in fiscal 2005 from fiscal 2004. Public safety and community and economic development disbursements decreased approximately \$53,000 and \$3,000, respectively. Public works, capital projects, general government and debt service increased approximately \$37,000, \$20,000, \$13,000 and \$8,000, respectively.
- The City's total cash basis net assets increased 22.54%, or approximately \$59,500 from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately \$10,000 and the assets of the business type activities increased by approximately \$49,500.

### USING THIS ANNUAL REPORT

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

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial

statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

## **Basis of Accounting**

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

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that helps answer this question.

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1)

the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 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 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 four Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$212,551 to \$222,530. The analysis that follows focuses on the changes in cash balances for governmental activities.

<b>Cash Basis Net Assets of Government Activities</b>	
<b>June 30, 2005</b>	
Receipts:	
Program receipts:	
Charges for service	\$ 2,467
Operating grants, contributions and restricted interest	61,445
Capital grants, contributions and restricted interest	72,620
General receipts:	
Property tax	220,944
Local option tax	44,957
Unrestricted CD interest	2,961
Other general receipts	47,149
Sale of assets	1,426
Transfers, net	29,318
Total receipts	<u>483,287</u>
Disbursements:	
Public safety	110,432
Public works	145,840
Culture and recreation	61,138
General government	69,823

Debt service	76,075
Capital projects	10,000
Total disbursements	<u>473,308</u>
Increase in cash basis net assets	9,979
Cash basis net assets beginning of year	<u>212,551</u>
Cash basis net assets end of year	<u><u>\$ 222,530</u></u>

The City's total receipts for governmental activities increased by .38%, or \$1,818. The total cost of all programs and services increased by approximately \$13,000, or .28%, with no new programs added this year.

The City increased property tax rates for 2005 by an average of 8.1%. This increase raised the City's property tax receipts by approximately \$17,000 in 2005.

The cost of all governmental activities this year was \$473,308 compared to \$460,918 last year. However, as shown in the Statement of Activities and Net Assets on page 17, the amount taxpayers ultimately financed for these activities was only \$336,776 because some of the cost was paid by those directly benefited from the programs (\$2,467) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$134,065). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service totaled approximately \$136,500. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$221,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

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**Cash Basis Net Assets of Business Type Activities**  
**June 30, 2005**

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Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 102,711
Sewer	64,166
General receipts:	
Unrestricted CD interest	0
Other general receipts	9,091
Total receipts	<u>175,968</u>
 Disbursements:	
Water	58,777
Sewer	38,360
Transfers	29,318
Total disbursements	<u>126,455</u>
Increase in cash basis net assets	49,513
Cash basis net assets beginning of year	<u>51,440</u>
Cash basis net assets end of year	<u><u>\$ 100,953</u></u>

Total business type activities receipts for the fiscal year were \$175,968 compared to \$147,093 last year. Total disbursements for the fiscal year decreased by \$9,224 to a total of \$97,137. The cash balance increased by \$49,513 during the fiscal year compared to an increase of \$17,290 last year.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Kanawha completed the year, its governmental funds reported a combined fund balance of \$222,530, an increase of \$9,979 above last year's total of \$212,551. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$103,069 from the prior year to \$13,197.
- The Road Use Tax Fund cash balance decreased by \$14,971 to \$36,695 during the fiscal year. This decrease was attributable to an increase in street projects this fiscal year.
- Capital Projects Fund cash balance increased from \$0 to 62,973. The major increase was due to grant and contribution monies received for the upcoming Fire Station project.
- The Local Option Tax Fund cash balance increased by \$40,957 to \$82,854 during the fiscal year.
- There was an increase in the Debt Service Fund cash balance of \$5,674 for an ending balance of \$8,396.
- The Employee Benefits Fund balance increased by \$18,415 to \$18,415 during the fiscal year.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$23,707 to \$55,078 during the fiscal year.
- The Sewer Fund cash balance increased by \$25,806 to \$39,326 during the fiscal year.
- There was no change in the Sewer Revenue Reserve cash balance. The balance remained at \$2,049.
- There was no change in the Sewer Improvement Fund cash balance. The balance remained at \$4,500.

## BUDGETARY HIGHLIGHTS

The City amended its budget on May 10, 2005. The amendment resulted in an increase in intergovernmental receipts and miscellaneous receipts of \$10,000 and \$2,638 respectively. The amendment also increased expenditures for Public Safety and Culture and Recreation of \$10,000 and \$2,638 respectively.

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## DEBT ADMINISTRATION

At June 30, 2005, the City had \$601,000 in general obligation and revenue bonds, compared to \$668,000 at the end of the prior year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2005	2004
General obligation bonds	\$430,000	480,000
Revenue notes	171,000	188,000
Total	<u>\$601,000</u>	<u>668,000</u>

Debt decreased as a result of the payment of \$50,000 in general obligation debt and \$17,000 in revenue notes during the year. The constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$430,000 is below its constitutional debt limit of \$594,920.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Kanawha's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities. Economic factors in the area remain steady as the county unemployment rate remains one of the lowest in the state.

These among other economic factors were taken into account when adopting the budget for fiscal year 2006. Amounts available for appropriation in the operating budget are \$656,656, an increase of 7.2 % from the final 2005 budget. Budgeted disbursements are expected to decrease by approximately \$68,000.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$ 56,000 by the close of 2006. Actual amounts can and usually do differ from budgeted amounts.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sharon Grimm, City Clerk, 121 North Main Street, Kanawha, Iowa.







BASIC FINANCIAL STATEMENTS

## City of Kanawha

## Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2005

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions / Programs:</b>							
Governmental activities:							
Public safety	\$ 110,432				(110,432)		(110,432)
Public works	145,840	2,067	61,445		(82,328)		(82,328)
Culture and recreation	61,138	400		72,620	11,882		11,882
General government	69,823				(69,823)		(69,823)
Debt service	76,075				(76,075)		(76,075)
Capital projects	10,000				(10,000)		(10,000)
Total governmental activities	473,308	2,467	61,445	72,620	(336,776)		(336,776)
Business type activities:							
Water	58,777	102,711				43,934	43,934
Sewer	38,360	64,166				25,806	25,806
Total business type activities	97,137	166,877				69,740	69,740
Total	\$ 570,445	169,344	61,445	72,620	(336,776)	69,740	(267,036)
<b>General Receipts:</b>							
Property tax levied for:							
General purposes					\$ 117,016		117,016
Employee benefits and insurance					51,497		51,497
Debt service					52,431		52,431
Local option sales tax					44,957		44,957
Unrestricted interest on investments					2,961		2,961
Miscellaneous					47,149	9,091	56,240
Sale of assets					1,426		1,426
Transfers					29,318	(29,318)	
Total general receipts and transfers					346,755	(20,227)	326,528
Change in cash basis net assets					9,979	49,513	59,492
Cash basis net assets beginning of year					212,551	51,440	263,991
Cash basis net assets end of year					\$ 222,530	100,953	323,483
<b>Cash Basis Net Assets</b>							
Restricted:							
Streets					\$ 51,666		51,666
Debt service					2,722	6,549	9,271
Other purposes					65,034		65,034
Unrestricted					103,108	94,404	197,512
Total cash basis net assets					\$ 222,530	100,953	323,483

See notes to financial statements.

City of Kanawha

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

As of and for the year ended June 30, 2005

	Special Revenue						Total
	General	Road Use Tax	Local Option	Employee Benefits	Debt Service	Capital Projects	
<b>Receipts:</b>							
Property Tax	\$ 117,016			51,497	52,431		220,944
Other city tax			44,957				44,957
Licenses and permits	1,015						1,015
Use of money and property	2,608					353	2,961
Intergovernmental	2,754	61,445				10,000	74,199
Charges for services	2,467						2,467
Fines	885						885
Donations	21,020					62,620	83,640
Reimbursements	9,791						9,791
Miscellaneous	11,684						11,684
<b>Total receipts</b>	<b>169,240</b>	<b>61,445</b>	<b>44,957</b>	<b>51,497</b>	<b>52,431</b>	<b>72,973</b>	<b>452,543</b>
<b>Disbursements:</b>							
<b>Operating:</b>							
Public safety	99,446			10,986			110,432
Public works	59,125	76,416		10,299			145,840
Culture and recreation	55,282		4,000	1,856			61,138
General government	59,882			9,941			69,823
Debt service					76,075		76,075
Capital projects						10,000	10,000
<b>Total disbursements</b>	<b>273,735</b>	<b>76,416</b>	<b>4,000</b>	<b>33,082</b>	<b>76,075</b>	<b>10,000</b>	<b>473,308</b>
Excess (deficiency) of receipts over (under) disbursements	(104,495)	(14,971)	40,957	18,415	(23,644)	62,973	(20,765)
<b>Other financing sources (uses):</b>							
Sale of capital assets	1,426						1,426
Operating transfers in					29,318		29,318
<b>Total other financing sources (uses)</b>	<b>1,426</b>				<b>29,318</b>		<b>30,744</b>
Net change in cash balances	(103,069)	(14,971)	40,957	18,415	5,674	62,973	9,979
Cash balances beginning of year	116,266	51,666	41,897		2,722		212,551
Cash balances end of year	\$ 13,197	36,695	82,854	18,415	8,396	62,973	222,530
<b>Cash Basis Fund Balances</b>							
<b>Reserved:</b>							
Debt service					8,396		8,396
Capital projects - fire station						62,973	62,973
<b>Unreserved:</b>							
General fund	\$ 13,197						13,197
Special revenue funds		36,695	82,854	18,415			137,964
<b>Total cash basis fund balances</b>	<b>\$ 13,197</b>	<b>36,695</b>	<b>82,854</b>	<b>18,415</b>	<b>8,396</b>	<b>62,973</b>	<b>222,530</b>

See notes to financial statements.

## City of Kanawha

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

As of and for the year ended June 30, 2005

	Proprietary Funds				Total
	Water	Sewer Rental	Sewer Revenue Reserve	Sewer Improvement	
Operating receipts:					
Charges for service	\$ 102,711	64,166			166,877
Miscellaneous	9,091				9,091
Total operating receipts	111,802	64,166			175,968
Operating disbursements:					
Business type activities	58,777	13,076			71,853
Total operating disbursements	58,777	13,076			71,853
Excess of operating receipts over operating disbursements	53,025	51,090			104,115
Non-operating (disbursements):					
Debt service		(25,284)			(25,284)
Excess of receipts over disbursements	53,025	25,806			78,831
Other financing sources (uses):					
Operating transfers in (out)	(29,318)				(29,318)
Excess of receipts and other financing sources over disbursements and other uses	23,707	25,806			49,513
Cash balance beginning of year	31,371	13,520	2,049	4,500	51,440
Cash balances end of year	\$ 55,078	39,326	2,049	4,500	100,953
<b>Cash Basis Fund Balances</b>					
Reserved for debt service			2,049	4,500	6,549
Unreserved	\$ 55,078	39,326			94,404
Total cash basis fund balances	\$ 55,078	39,326	2,049	4,500	100,953

See notes to financial statements.

# CITY OF KANAWHA

## Notes to Financial Statements

June 30, 2005

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

The City of Kanawha is a political subdivision of the State of Iowa located in Hancock County. It was first incorporated in 1881 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. The City also provides water and sewer utilities for its citizens.

#### **A. Reporting Entity**

For financial reporting purposes, City of Kanawha 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 of Kanawha had no component units which meet the Governmental Accounting Standards Board criteria.

#### **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: Hancock County Assessor's Conference Board and Hancock County Development Commission.

#### **B. Basis of Presentation**

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all 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:

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2005

*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 the 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 Local Option Tax Fund is used to account for local option sales tax collected.

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

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.

# CITY OF KANAWHA

## Notes to Financial Statements (continued)

June 30, 2005

### C. Measurement Focus and Basis of Accounting

The City of Kanawha 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. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public works, culture and recreation, debt service and capital projects functions.

## (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 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's investments, categorized to give an indication of the level of risk assumed by the City at year end, consist entirely of certificates of deposits. The City's investments are all category 1 which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2005

**(3) Bonds Payable**

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

Year Ending June 30,	Sewer Revenue Note		General Obligation Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 18,000	7,802	35,000	23,050	53,000	30,852
2007	19,000	6,982	40,000	21,246	59,000	28,228
2008	20,000	6,114	40,000	19,135	60,000	25,249
2009	21,000	5,202	40,000	17,013	61,000	22,215
2010	22,000	4,244	45,000	14,878	67,000	19,122
2011	23,000	3,240	50,000	12,471	73,000	15,711
2012	23,000	2,190	35,000	9,785	58,000	11,975
2013	25,000	1,140	15,000	7,930	40,000	9,070
2014			15,000	7,128	15,000	7,128
2015			15,000	6,317	15,000	6,317
2016			20,000	5,500	20,000	5,500
2017			20,000	4,400	20,000	4,400
2018			20,000	3,300	20,000	3,300
2019			20,000	2,200	20,000	2,200
2020			20,000	1,100	20,000	1,100
Total	<u>\$171,000</u>	<u>36,914</u>	<u>430,000</u>	<u>155,453</u>	<u>601,000</u>	<u>192,367</u>

The revenue note agreement includes the following provisions:

- a) A sinking fund shall be established and sufficient monthly transfers made to pay principal and interest obligations when due.
- b) A reserve fund shall be established and monthly transfers shall be made until the fund reaches the required balance as outlined in the agreement.
- c) An improvement fund shall be established and minimum transfers of \$4,500 annually shall be made to the fund. The fund shall be used for payment of debt obligations when other funds are not sufficient to do so. If other funds are sufficient to meet debt obligations then the fund shall be used to pay for extraordinary maintenance or repairs not included in the budget.

The City has not made sufficient transfers as required by the sewer revenue note resolution.

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2005

**(4) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.90%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$ 13,991, \$8,182, and \$7,282 respectively, equal to the required contributions for each year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours are accumulated for subsequent use but are not paid upon termination, retirement, or death. Comp time hours are accumulated for subsequent use but are not paid upon termination or retirement. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2005</u>
Vacation	\$ <u>4,888</u>

This liability has been computed based on rates of pay as of June 30, 2005.

**(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Enterprise: Water	\$ <u>29,318</u>

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2005

**(7) Related Party Transactions**

No transactions between the City and City officials occurred during the year ended June 30, 2005.

**(8) Risk Management**

The City of Kanawha 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.

REQUIRED SUPPLEMENTARY INFORMATION

City of Kanawha

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

Required Supplementary Information

Year ended June 30, 2005

	Governmental	Proprietary	Net	Budgeted Amounts		Final to
	Funds	Funds		Original	Final	Net Variance
	Actual	Actual				
<b>Receipts:</b>						
Property Tax	\$ 220,944		220,944	215,678	215,678	5,266
Other city tax	44,957		44,957	52,262	52,262	(7,305)
Licenses and permits	1,015		1,015	500	500	515
Use of money and property	2,961		2,961	4,260	4,260	(1,299)
Intergovernmental	74,199		74,199	84,592	94,592	(20,393)
Charges for services	2,467	166,877	169,344	142,712	142,712	26,632
Miscellaneous	106,000	9,091	115,091	23,300	25,938	89,153
Total receipts	452,543	175,968	628,511	523,304	535,942	92,569
<b>Disbursements:</b>						
Public safety	110,432		110,432	109,320	119,320	8,888
Public works	145,840		145,840	130,608	130,608	(15,232)
Culture and recreation	61,138		61,138	56,024	58,662	(2,476)
Community and economic development				3,000	3,000	3,000
General government	69,823		69,823	96,109	96,109	26,286
Debt service	76,075		76,075	52,863	52,863	(23,212)
Capital projects	10,000		10,000			(10,000)
Business type activities		97,137	97,137	107,342	107,342	10,205
Total disbursements	473,308	97,137	570,445	555,266	567,904	(2,541)
Excess (deficiency) of receipts over (under) disbursements	(20,765)	78,831	58,066	(31,962)	(31,962)	90,028
Other financing sources, net	30,744	(29,318)	1,426			1,426
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	9,979	49,513	59,492	(31,962)	(31,962)	91,454
Balances beginning of year	212,551	51,440	263,991	210,768	210,768	53,223
Cash balances end of year	\$ 222,530	100,953	323,483	178,806	178,806	144,677

See accompanying independent auditor's report.

City of Kanawha

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 Internal Service 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 include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$12,638. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amount budgeted in the public works, culture and recreation, debt service and capital projects functions.

OTHER SUPPLEMENTARY INFORMATION

## City of Kanawha

## Schedule of Indebtedness

Year ended June 30, 2005

<b>Obligation</b>	<b>Date of Issue</b>	<b>Rate of Interest</b>	<b>Amount Originally Issued</b>	<b>Balance Beginning of Year</b>	<b>Redeemed During Year</b>	<b>Balance End of Year</b>	<b>Interest Paid</b>
General Obligation Bonds:							
Fire Department	4/1/1995	5.50%	\$ 100,000	15,000	15,000		825
Fire Department	5/1/1995	5.50 - 5.65	150,000	95,000	10,000	85,000	5,368
General Corporate Purpose	10/1/2000	4.80 - 5.50	430,000	370,000	25,000	345,000	19,683
Total				480,000	50,000	430,000	25,876
Revenue Bond:							
Sewer lagoon	12/30/1992	4.62%	\$ 242,000	145,000	13,000	132,000	6,399
Sewer	12/30/1992	4.37	73,000	43,000	4,000	39,000	1,792
Total				188,000	17,000	171,000	8,191

See accompanying independent auditor's report.

## CITY OF KANAWHA

## Bond and Note Maturities

June 30, 2005

GENERAL OBLIGATION NOTES					
Year Ending June 30,	Fire Department Issued May 1, 1995		General Corporate Purpose Issued October 1, 2000		Total
	Interest Rates	Amount	Interest Rates	Amount	
2006	5.65%	\$ 10,000	5.00	25,000	35,000
2007	5.65	15,000	5.05	25,000	40,000
2008	5.65	15,000	5.10	25,000	40,000
2009	5.65	15,000	5.15	25,000	40,000
2010	5.65	15,000	5.20	30,000	45,000
2011	5.65	15,000	5.25	35,000	50,000
2012			5.30	35,000	35,000
2013			5.35	15,000	15,000
2014			5.40	15,000	15,000
2015			5.45	15,000	15,000
2016			5.50	20,000	20,000
2017			5.50	20,000	20,000
2018			5.50	20,000	20,000
2019			5.50	20,000	20,000
2020			5.50	20,000	20,000
<b>Total</b>		<b>\$ 85,000</b>		<b>345,000</b>	<b>430,000</b>

REVENUE NOTES					
Year Ending June 30,	Sewer Lagoon Issued December 30, 1992		Sewer Issued December 30, 1992		Total
	Interest Rates	Amount	Interest Rates	Amount	
2006	4.62%	\$ 14,000	4.37	4,000	18,000
2007	4.62	15,000	4.37	4,000	19,000
2008	4.62	15,000	4.37	5,000	20,000
2009	4.62	16,000	4.37	5,000	21,000
2010	4.62	17,000	4.37	5,000	22,000
2011	4.62	18,000	4.37	5,000	23,000
2012	4.62	18,000	4.37	5,000	23,000
2013	4.62	19,000	4.37	6,000	25,000
		<b>\$ 132,000</b>		<b>39,000</b>	<b>171,000</b>

See accompanying independent auditor's report.

## CITY OF KANAWHA

Schedule of Receipts By Source and Disbursements By Function  
All Governmental Funds

For the Last Two Years

	2005	2004
Receipts:		
Property tax	\$ 220,944	204,334
Other city tax	44,957	46,235
Licenses and permits	1,015	570
Use of money and property	2,961	2,461
Intergovernmental	74,199	110,985
Charges for service	2,467	16,207
Miscellaneous	106,000	67,235
Total	<u>\$ 452,543</u>	<u>448,027</u>
Disbursements:		
Operating:		
Public safety	\$ 110,432	163,609
Public works	145,840	109,102
Culture and recreation	61,138	59,911
Community and economic development		2,805
General government	69,823	56,736
Debt service	76,075	68,035
Capital projects	10,000	
Total	<u>\$ 473,308</u>	<u>460,198</u>

See accompanying independent auditor's report.

## Sewer Revenue Capital Note Information

June 30, 2005

## Rates and Customer Usage:

At June 30, 2005 the City had approximately 350 customers using the wastewater treatment system. At June 30, 2005 the City's sewer charges were 65% of the customer charge for water usage with minimum charge of \$10.07. Water usage is charged out at \$5.90 per 1000 gallons used in excess of 2,625 gallons with a minimum charge of \$15.49 per building.

## Insurance Coverage:

Coverage	Limit	Deductible	Coinsurance
Municipal building	\$ 510,000	\$ 250	90%
Municipal building contents	70,000	250	90
Old city hall	53,550	250	90
Old city hall contents	7,250	250	90
Water tower	350,000	250	90
Water building and equipment	1,339	250	90
Sewage lift station equipment	1,288	250	90
Sewage lift station	32,000	250	90
Fences and lighting	60,000	250	90
Shelter house/concession stand	22,500	250	90
Shelter house-picnic	20,000	250	90
Shelter house contents	7,000	250	90
Centennial Store	25,000	250	90
Pole Shelter	5,500	250	90
Water treatment facility	428,500	250	90
Water treatment building contents	10,815	250	90
Mobile equipment	46,000	250	90
Liability-each occurrence	1,000,000		
Vehicles	actual cash value	250	

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 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 Kanawha, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 9, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Kanawha's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Kanawha's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in 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, we believe item (A) is a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kanawha'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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City of Kanawha's operations for the year ended June 30, 2005 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.

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 Kanawha and other parties to whom the City of Kanawha may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Kanawha 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.

November 9, 2005

Renner & Birchem, P.C.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2005

Part I: Findings Related to the Financial Statements:

Reportable Conditions:

- (A) Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts functions and the cash disbursement functions are all done by the same person.

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

Response - We will investigate this.

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

Part II: Other Findings Related to Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been approved by the City in 2002. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2005.

Recommendation – The City should update the depository resolution prior to exceeding stated maximum deposit amounts.

Response – We will update the depository resolution prior to exceeding stated maximum deposit amounts.

Conclusion – Response accepted.

- (2) Certified Budget – Disbursements during the year ended June 30, 2005, exceeded amounts budgeted in the public works, culture and recreation, debt service and capital projects functions. 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 – The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2005

- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions - No transactions between the City and City officials 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 insure that the coverage is adequate for current operations.
- (6) Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

Council minutes were not all signed by the mayor and clerk.

Recommendation – The mayor and clerk should sign minutes prior to posting them in the minute book.

Response – Mayor and clerk will sign minutes prior to posting them in the minute book

Conclusion – Response accepted.

- (7) Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- (8) Revenue Notes – The revenue note provisions have not been compiled with during the year ended June 30, 2005. Required transfers have not been made.

Recommendation – The City should make the required transfers.

Response – We will make required transfers when possible.

Conclusion – Response accepted.