

CITY OF KANAWHA

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

JUNE 30, 2006

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CITY OF KANAWHA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Terry Johnson	Mayor	Jan 2008
Paula Abbas	Council Member	Jan 2008
Ray Bassett	Council Member	Jan 2008
Brent Beukema	Council Member	Jan 2010
Nancy Litch	Council Member	Jan 2010
Judy Vander Ploeg	Council Member	Jan 2010
Sharon Grimm	City Clerk	July 2007
Earl Hill	Attorney	July 2007

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, 2006, 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, 2006, 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 October 2, 2006 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 14 and 26 and 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 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, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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.

October 2, 2006

Renner & Birchem, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 1.91%, or approximately \$8,600 from fiscal 2005 to fiscal 2006. Intergovernmental increased approximately \$51,000 and local option tax decreased approximately \$7,000.
- Disbursements increased 14.56% or approximately \$69,000 in fiscal 2006 from fiscal 2005. Public works and debt service disbursements decreased approximately \$15,100 and \$17,600, respectively. Public safety, capital projects and general government increased approximately \$71,000, \$20,100 and \$9,600 respectively.
- The City's total cash basis net assets increased 7.13%, or approximately \$23,000 from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately \$54,000 and the assets of the business type activities increased by approximately \$77,000.

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 decreased from a year ago, from \$222,530 to \$168,453. The analysis that follows focuses on the changes in cash balances for governmental activities.

Cash Basis Net Assets of Government Activities	
June 30, 2006	
Receipts:	
Program receipts:	
Charges for service	\$ 290
Operating grants, contributions and restricted interest	146,269
Capital grants, contributions and restricted interest	
General receipts:	
Property tax	222,467
Local option tax	51,972
Unrestricted CD interest	3,541
Other general receipts	36,626
Sale of assets	4,456
Transfers, net	<u>22,522</u>
Total receipts	<u>488,143</u>
Disbursements:	
Public safety	181,550
Public works	134,784
Culture and recreation	55,068
Community and economic development	2,860

General government	79,402
Debt service	58,460
Capital projects	30,096
Total disbursements	<u>542,220</u>
Decrease in cash basis net assets	(54,077)
Cash basis net assets beginning of year	<u>222,530</u>
Cash basis net assets end of year	<u>\$ 168,453</u>

The City's total receipts for governmental activities increased by 1.91%, or \$8,622. The total cost of all programs and services increased by approximately \$68,912, or 14.56%, with no new programs added this year.

The City increased property tax rates for 2006 by an average of .69%. This increase raised the City's property tax receipts by approximately \$1,525 in 2006.

The cost of all governmental activities this year was \$542,220 compared to \$473,308 last year. However, as shown in the Statement of Activities and Net Assets on page 16, the amount taxpayers ultimately financed for these activities was only \$395,661 because some of the cost was paid by those directly benefited from the programs (\$290) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$146,269). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service totaled approximately \$146,560. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$222,470 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Cash Basis Net Assets of Business Type Activities
June 30, 2006

Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 104,681
Sewer	65,331
General receipts:	
Other general receipts	<u>14,695</u>
Total receipts	<u>184,707</u>
Disbursements:	
Water	38,547
Sewer	46,500
Transfers	<u>22,522</u>
Total disbursements	<u>107,569</u>
Increase in cash basis net assets	77,138
Cash basis net assets beginning of year	<u>100,953</u>
Cash basis net assets end of year	<u>\$ 178,091</u>

Total business type activities receipts for the fiscal year were \$184,707 compared to \$175,968 last year. Total disbursements for the fiscal year decreased by \$18,886 to a total of \$107,569. The cash balance increased by \$77,138 during the fiscal year compared to an increase of \$49,513 last year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Kanawha completed the year, its governmental funds reported a combined fund balance of \$168,453, a decrease of \$54,077 below last year's total of \$222,530. 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 \$53,644 from the prior year to \$42,407.
- The Road Use Tax Fund cash balance decreased by \$13,026 to \$23,669 during the fiscal year. This decrease was attributable to an increase in street projects this fiscal year.
- Capital Projects Fund cash balance decreased from \$62,973 to \$55,723.
- There was an increase in the Debt Service Fund cash balance of \$219 for an ending balance of \$8,615.
- The Employee Benefits Fund balance increased by \$19,624 to \$38,039 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$58,307 to \$113,385 during the fiscal year.
- The Sewer Fund cash balance increased by \$18,831 to \$58,157 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 approved its budget on March 8, 2005.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$548,000 in general obligation and revenue bonds, compared to \$601,000 at the end of the prior year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2006	2005
General obligation bonds	\$ 395,000	430,000
Revenue notes	153,000	171,000
Total	\$ 548,000	601,000

Debt decreased as a result of the payment of \$35,000 in general obligation debt and \$18,000 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 \$395,000 is below its constitutional debt limit of approximately \$920,000.

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 2007 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 2007. Amounts available for appropriation in the operating budget are \$765,077, an increase of 16.51 % from the final 2006 budget. Budgeted disbursements are expected to increase by approximately \$49,091.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$81,600 by the close of 2007. 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, 2006

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs:						
Governmental activities:						
Public safety	\$ 181,550		61,550	(120,000)		(120,000)
Public works	134,784		61,873	(72,911)		(72,911)
Culture and recreation	55,068	290		(54,778)		(54,778)
Community and economic development	2,860			(2,860)		(2,860)
General government	79,402			(79,402)		(79,402)
Debt service	58,460			(58,460)		(58,460)
Capital projects	30,096		22,846	(7,250)		(7,250)
Total governmental activities	542,220	290	146,269	(395,661)		(395,661)
Business type activities:						
Water	38,547	104,681			66,134	66,134
Sewer	46,500	65,331			18,831	18,831
Total business type activities	85,047	170,012			84,965	84,965
Total	\$ 627,267	170,302	146,269	(395,661)	84,965	(310,696)
General Receipts:						
Property tax levied for:						
General purposes				\$ 130,381		130,381
Employee benefits and insurance				55,929		55,929
Debt service				36,157		36,157
Local option sales tax				51,972		51,972
Unrestricted interest on investments				3,541		3,541
Miscellaneous				36,626	14,695	51,321
Sale of assets				4,456		4,456
Transfers				22,522	(22,522)	
Total general receipts and transfers				341,584	(7,827)	333,757
Change in cash basis net assets				(54,077)	77,138	23,061
Cash basis net assets beginning of year				222,530	100,953	323,483
Cash basis net assets end of year				\$ 168,453	178,091	346,544
Cash Basis Net Assets						
Restricted:						
Streets				\$ 23,699		23,699
Debt service				8,615	6,549	15,164
Other purposes				88,732		88,732
Unrestricted				47,407	171,542	218,949
Total cash basis net assets				\$ 168,453	178,091	346,544

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, 2006

	Special Revenue					Total
	General	Road Use Tax	Employee Benefits	Debt Service	Capital Projects	
Receipts:						
Property Tax	\$ 130,381		55,929	36,157		222,467
Other city tax	51,972					51,972
Licenses and permits	678					678
Use of money and property	4,266					4,266
Intergovernmental	63,698	61,873				125,571
Charges for services	290					290
Fines	927					927
Donations	24,719				22,846	47,565
Reimbursements	6,793					6,793
Miscellaneous	636					636
Total receipts	284,360	61,873	55,929	36,157	22,846	461,165
Disbursements:						
Operating:						
Public safety	170,953		10,597			181,550
Public works	46,245	74,899	9,560			130,704
Culture and recreation	57,352		1,796			59,148
Community and economic development	2,860					2,860
General government	65,050		14,352			79,402
Debt service				58,460		58,460
Capital projects					30,096	30,096
Total disbursements	342,460	74,899	36,305	58,460	30,096	542,220
Excess (deficiency) of receipts over (under) disbursements	(58,100)	(13,026)	19,624	(22,303)	(7,250)	(81,055)
Other financing sources (uses):						
Sale of capital assets	4,456					4,456
Operating transfers in				22,522		22,522
Total other financing sources (uses)	4,456			22,522		26,978
Net change in cash balances	(53,644)	(13,026)	19,624	219	(7,250)	(54,077)
Cash balances beginning of year	96,051	36,695	18,415	8,396	62,973	222,530
Cash balances end of year	\$ 42,407	23,669	38,039	8,615	55,723	168,453
Cash Basis Fund Balances						
Reserved:						
Debt service				8,615		8,615
Capital projects - fire station					55,723	55,723
Unreserved:						
General fund	\$ 42,407					42,407
Special revenue funds		23,669	38,039			61,708
Total cash basis fund balances	\$ 42,407	23,669	38,039	8,615	55,723	168,453

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, 2006

	Proprietary Funds				Total
	Water	Sewer Rental	Sewer Revenue Reserve	Sewer Improvement	
Operating receipts:					
Charges for service	\$ 104,681	65,331			170,012
Miscellaneous	14,695				14,695
Total operating receipts	119,376	65,331			184,707
Operating disbursements:					
Business type activities	38,547	22,218			60,765
Total operating disbursements	38,547	22,218			60,765
Excess of operating receipts over operating disbursements	80,829	43,113			123,942
Non-operating (disbursements):					
Debt service		(24,282)			(24,282)
Excess of receipts over disbursements	80,829	18,831			99,660
Other financing sources (uses):					
Operating transfers in (out)	(22,522)				(22,522)
Excess of receipts and other financing sources over disbursements and other uses	58,307	18,831			77,138
Cash balance beginning of year	55,078	39,326	2,049	4,500	100,953
Cash balances end of year	\$ 113,385	58,157	2,049	4,500	178,091
Cash Basis Fund Balances					
Reserved for debt service			2,049	4,500	6,549
Unreserved	\$ 113,385	58,157			171,542
Total cash basis fund balances	\$ 113,385	58,157	2,049	4,500	178,091

See notes to financial statements.

CITY OF KANAWHA

Notes to Financial Statements

June 30, 2006

(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, 2006

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 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, 2006

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, 2006, disbursements exceeded the amounts budgeted in the public safety and capital projects functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 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 investment consisted entirely of certificates of deposits in local banks. The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No.3 as amended by Statement No. 40.

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2006

(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
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>\$153,000</u>	<u>29,106</u>	<u>395,000</u>	<u>132,403</u>	<u>548,000</u>	<u>161,515</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, 2006

(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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by the state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$13,991, \$8,182, and \$8,546 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, 2006, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2006</u>
Vacation	\$ <u>2,058</u>

This liability has been computed based on rates of pay as of June 30, 2006.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Enterprise: Water	\$ <u>22,522</u>

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2006

(7) Related Party Transactions

No transactions between the City and City officials occurred during the year ended June 30, 2006.

(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, 2006

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Total Variance
	Funds	Funds		Original	Final	
	Actual	Actual				
Receipts:						
Property Tax	\$ 222,467		222,467	204,898	204,898	17,569
Other city tax	51,972		51,972	50,921	50,921	1,051
Licenses and permits	678		678	400	400	278
Use of money and property	4,266		4,266	3,200	3,200	1,066
Intergovernmental	125,571		125,571	85,788	85,788	39,783
Charges for services	290	170,012	170,302	176,650	176,650	(6,348)
Miscellaneous	55,921	14,695	70,616	20,602	20,602	50,014
Total receipts	461,165	184,707	645,872	542,459	542,459	103,413
Disbursements:						
Public safety	181,550		181,550	113,689	113,689	(67,861)
Public works	134,784		134,784	140,420	140,420	5,636
Health and social services				2,200	2,200	2,200
Culture and recreation	55,068		55,068	66,323	66,323	11,255
Community and economic development	2,860		2,860	3,000	3,000	140
General government	79,402		79,402	98,777	98,777	19,375
Debt service	58,460		58,460	58,411	58,411	(49)
Capital projects	30,096		30,096			(30,096)
Business type activities		85,047	85,047	115,753	115,753	30,706
Total disbursements	542,220	85,047	627,267	598,573	598,573	(28,694)
Excess (deficiency) of receipts over (under) disbursements	(81,055)	99,660	18,605	(56,114)	(56,114)	74,719
Other financing sources, net	26,978	(22,522)	4,456			4,456
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(54,077)	77,138	23,061	(56,114)	(56,114)	79,175
Balances beginning of year	222,530	100,953	323,483	291,326	291,326	32,157
Cash balances end of year	\$ 168,453	178,091	346,544	235,212	235,212	111,332

See accompanying independent auditor's report.

City of Kanawha

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except 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. 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 ended June 30, 2006, disbursements exceeded the amount budgeted in the public safety and capital projects functions.

OTHER SUPPLEMENTARY INFORMATION

City of Kanawha

Schedule of Indebtedness

Year ended June 30, 2006

Obligation	Date of Issue	Rate of Interest	Amount Originally Issued	Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
General Obligation Bonds:							
Fire Department	5/1/1995	5.50 - 5.65%	\$ 150,000	85,000	10,000	75,000	4,803
General Corporate Purpose	10/1/2000	4.80 - 5.50	430,000	345,000	25,000	320,000	18,658
Total				430,000	35,000	395,000	23,461
Revenue Bond:							
Sewer lagoon	12/30/1992	4.62%	\$ 242,000	132,000	14,000	118,000	4,885
Sewer	12/30/1992	4.37	73,000	39,000	4,000	35,000	1,397
Total				171,000	18,000	153,000	6,282

See accompanying independent auditor's report.

CITY OF KANAWHA

Bond and Note Maturities

June 30, 2006

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		
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	
Total		\$ 75,000		320,000	395,000	

REVENUE NOTES						
Year Ending June 30,	Sewer Lagoon Issued December 30, 1992		Sewer Issued December 30, 1992		Total	
	Interest Rates	Amount	Interest Rates	Amount		
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	
		\$ 118,000		35,000	153,000	

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

	2006	2005
Receipts:		
Property tax	\$ 222,467	220,944
Other city tax	51,972	44,957
Licenses and permits	678	1,015
Use of money and property	4,266	2,961
Intergovernmental	125,571	74,199
Charges for service	290	2,467
Miscellaneous	55,921	106,000
Total	<u>\$ 461,165</u>	<u>452,543</u>
Disbursements:		
Operating:		
Public safety	\$ 181,550	110,432
Public works	134,784	145,840
Culture and recreation	55,068	61,138
Community and economic development	2,860	
General government	79,402	69,823
Debt service	58,460	76,075
Capital projects	30,096	10,000
Total	<u>\$ 542,220</u>	<u>473,308</u>

See accompanying independent auditor's report.

Sewer Revenue Capital Note Information

June 30, 2006

Rates and Customer Usage:

At June 30, 2006 the City had approximately 350 customers using the wastewater treatment system.

At June 30, 2006 the City's sewer charges were 65% of the customer charge for water usage with minimum charge of \$10.37. Water usage is charged out at \$6.08 per 1000 gallons used in excess of 2,625 gallons with a minimum charge of \$15.96 per building.

Insurance Coverage:

Coverage	Limit	Deductible	Coinsurance
Municipal building	\$ 559,000	\$ 250	90%
Municipal building contents	72,000	250	90
Old city hall	57,834	250	90
Old city hall contents	7,468	250	90
Water tower	350,000	250	90
Water building and equipment	1,379	250	90
Sewage lift station equipment	1,327	250	90
Sewage lift station	34,560	250	90
Fences and lighting	64,800	250	90
Shelter house/concession stand	24,300	250	90
Shelter house-picnic	21,600	250	90
Shelter house contents	7,000	250	90
Centennial Store	25,000	250	90
Pole Shelter	5,500	250	90
Water treatment facility	462,780	250	90
Water treatment building contents	11,139	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, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 2, 2006. 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 items (A) and (B) are material weaknesses.

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, 2006 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.

October 2, 2006

Renner & Birchem, P.C.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2006

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.

- (B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – These procedures have been implemented as recommended.

Conclusion – Response accepted.

Instances of Non – Compliance:

No matters were reported

Part II: Other Findings Related to Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2006, exceeded amounts budgeted in the public safety 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.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2006

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.

- (2) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (3) Business Transactions - No transactions between the City and City officials were noted.
- (4) 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.
- (5) 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.

- (6) 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.
- (7) Revenue Notes – The revenue note provisions have not been compiled with during the year ended June 30, 2006. 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.