

CITY OF KANAWHA

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

JUNE 30, 2007

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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 2008
Earl Hill	Attorney	July 2008

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, 2007, 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, 2007, 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 December 21, 2007 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 four years ended June 30, 2006 (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.

December 21, 2007

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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 151.9 %, or approximately \$741,600 from fiscal 2006 to fiscal 2007. Intergovernmental decreased approximately \$61,500, miscellaneous receipts increased approximately \$15,000 and net bond proceeds were \$808,653.
- Disbursements increased 101.4 % or approximately \$550,000 in fiscal 2007 from fiscal 2006. Public safety and public works disbursements decreased approximately \$66,000 and \$25,000, respectively. Capital projects and debt service disbursements increased approximately \$341,500 and \$300,000 respectively.
- The City's total cash basis net assets increased 63.64%, or approximately \$220,500 from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased approximately \$137,900 and the assets of the business type activities increased by approximately \$82,600.

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, from \$168,453 to \$306,387. The analysis that follows focuses on the changes in cash balances for governmental activities.

Cash Basis Net Assets of Government Activities		
	Year Ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service	\$ 2,903	290
Operating grants, contributions and restricted interest	89,801	146,269
Capital grants, contributions, and restricted interest	38,238	
General receipts:		
Property tax	230,406	222,467
Local option tax	49,065	51,972
Unrestricted CD interest	3,008	3,541
Other general receipts	7,250	36,626
Sale of assets	389	4,456
Other financing sources, net	808,653	22,522
Total receipts	<u>1,229,713</u>	<u>488,143</u>
Disbursements:		
Public safety	115,850	181,550
Public works	105,846	134,784
Culture and recreation	54,464	55,068
Community and economic development	1,733	2,860
General government	83,732	79,402
Debt service	358,512	58,460
Capital projects	371,642	30,096
Total disbursements	<u>1,091,779</u>	<u>542,220</u>
Increase/(decrease) in cash basis net assets	137,934	(54,077)
Cash basis net assets beginning of year	168,453	222,530
Cash basis net assets end of year	<u>\$ 306,387</u>	<u>168,453</u>

The City’s total receipts for governmental activities increased by 151.9%, or \$741,570. The significant increase in receipts was primarily the result of proceeds received from the bond issue. The total cost of all programs and services increased by \$549,559, or 101.35%, with no new programs added this year.

The City increased property tax rates for 2007 by an average of 3.6%. This increase raised the City’s property tax

receipts by approximately \$7,939 in 2007.

The cost of all governmental activities this year was \$1,091,779 compared to \$542,220 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 \$960,837 because some of the cost was paid by those directly benefited from the programs (\$2,903) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$128,039). Overall, the City’s governmental activities receipts, including intergovernmental aid and fees for service totaled approximately \$130,940. The City paid for the remaining “public benefit” portion of governmental activities with approximately \$230,400 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

Receipts:	Year Ended June 30,	
Program receipts:	2007	2006
Charges for service:		
Water	\$ 102,282	104,681
Sewer	63,495	65,331
General Receipts:		
Other general receipts	8,714	14,695
Total receipts	174,491	184,707
Disbursements:		
Water	54,100	38,547
Sewer	37,772	46,500
Total disbursements	91,872	85,047
Change in cash basis net assets before transfers	82,619	99,660
Transfers, net		(22,522)
Increase in cash basis net assets	82,619	77,138
Cash basis net assets beginning of year	178,091	100,953
Cash basis net assets end of year	\$ 260,710	178,091

Total business type activities receipts for the fiscal year were \$174,491 compared to \$184,707 last year. Total disbursements, including transfers, for the fiscal year decreased by \$15,697 to a total of \$91,872. The cash balance increased by \$82,619 during the fiscal year compared to an increase of \$77,138 last year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Kanawha completed the year, its governmental funds reported a combined fund balance of \$306,387, an increase of \$137,934 over last year’s total of \$168,453. 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 \$38,978 from the prior year to \$3,429.
- The Road Use Tax Fund cash balance increased by \$29,365 to \$53,034 during the fiscal year. This increase was attributable to a decrease in street projects this fiscal year.
- Capital Projects Fund cash balance increased from \$55,723 to \$201,730, which will be used for current projects.
- There was an increase in the Debt Service Fund cash balance of \$2,982 for an ending balance of \$11,597.

- The Employee Benefits Fund balance decreased by \$1,442 to \$36,597 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$58,896 to \$170,281 during the fiscal year.
- The Sewer Fund cash balance increased by \$25,723 to \$83,880 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

Over the course of the year, the City amended its budget. The amended budget was approved on May 8, 2007 to provide for additional \$348,839 receipts and \$348,513 disbursements relating to the fire station capital project.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$1,016,200 in general obligation and revenue bonds, compared to \$548,000 at the end of the prior year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	2007	2006
General obligation bonds	\$882,200	395,000
Revenue notes	134,000	153,000
Total	<u>\$1,016,200</u>	<u>548,000</u>

Debt increased as a result of the of \$815,000 in general obligation debt issued along with short-term borrowing of \$7,200. 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 \$882,200 is below its constitutional debt limit of approximately \$1,023,000.

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 2008 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.

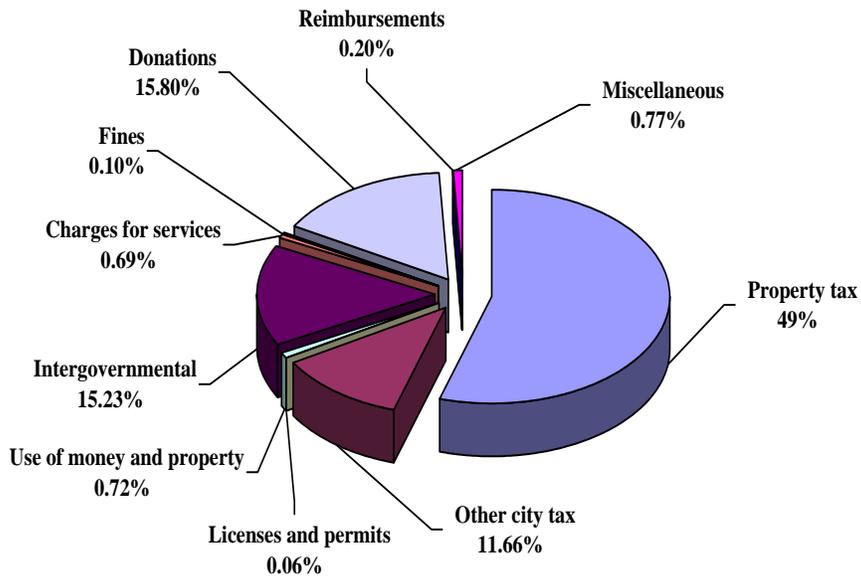
These among other economic factors were taken into account when adopting the budget for fiscal year 2008. Amounts available for appropriation in the operating budget are \$897,952, a decrease of 31.08% from the final 2007 budget. Budgeted disbursements are expected to decrease by approximately \$592,500.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$126,207 by the close of 2008. Actual amounts can and usually do differ from budgeted amounts.

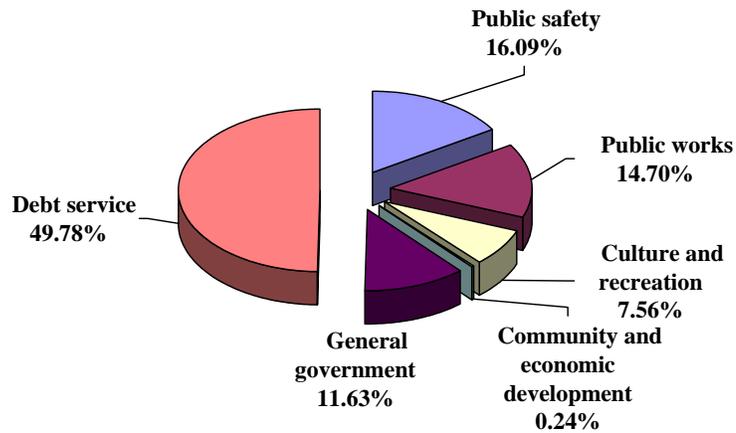
CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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.

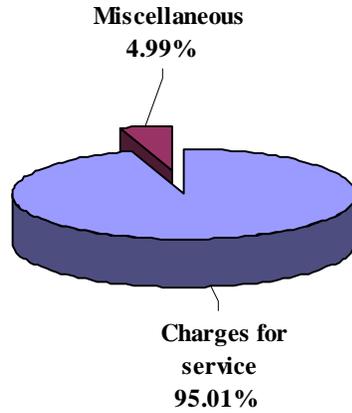
Governmental Receipts by Source



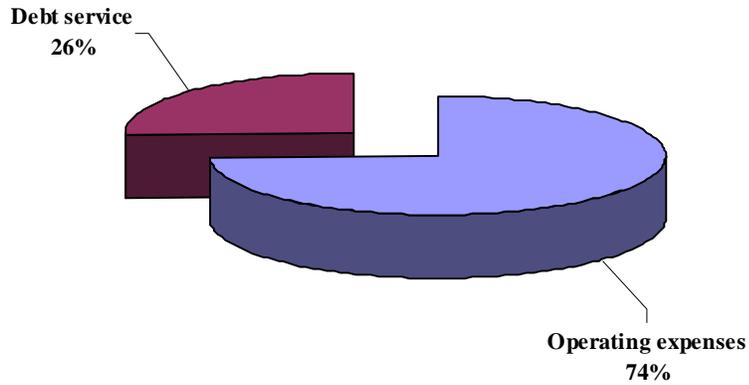
Governmental Disbursements by Function



Proprietary Fund Receipts by Source



Proprietary Funds Disbursements by Category



BASIC FINANCIAL STATEMENTS

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2007

	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
Functions / Programs:							
Governmental activities:							
Public safety	\$ 115,850		18,923	38,238	(58,689)		(58,689)
Public works	105,846		61,592		(44,254)		(44,254)
Culture and recreation	54,464	2,903	9,286		(42,275)		(42,275)
Community and economic development	1,733				(1,733)		(1,733)
General government	83,732				(83,732)		(83,732)
Debt service	358,512				(358,512)		(358,512)
Capital projects	371,642				(371,642)		(371,642)
Total governmental activities	1,091,779	2,903	89,801	38,238	(960,837)		(960,837)
Business type activities:							
Water	54,100	102,282				48,182	48,182
Sewer	37,772	63,495				25,723	25,723
Total business type activities	91,872	165,777				73,905	73,905
Total	\$ 1,183,651	168,680	89,801	38,238	(960,837)	73,905	(886,932)
General Receipts:							
Property tax levied for:							
General purposes					\$ 138,925		138,925
Employee benefits and insurance					52,029		52,029
Debt service					39,452		39,452
Local option sales tax					49,065		49,065
Unrestricted interest on investments					3,008		3,008
Miscellaneous					7,250	8,714	15,964
Sale of assets					389		389
Bond and note proceeds, net					808,653		808,653
Total general receipts and transfers					1,098,771	8,714	1,107,485
Change in cash basis net assets					137,934	82,619	220,553
Cash basis net assets beginning of year					168,453	178,091	346,544
Cash basis net assets end of year					\$ 306,387	260,710	567,097
Cash Basis Net Assets							
Restricted:							
Streets					\$ 53,034		53,034
Debt service					11,597	6,549	18,146
Other purposes					238,327		238,327
Unrestricted					3,429	254,161	257,590
Total cash basis net assets					\$ 306,387	260,710	567,097

See notes to financial statements.

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

As of and for the year ended June 30, 2007

	Special Revenue					Total
	General	Road Use Tax	Employee Benefits	Debt Service	Capital Projects	
Receipts:						
Property tax	\$ 138,925		52,029	39,452		230,406
Other city tax	49,065					49,065
Licenses and permits	265					265
Use of money and property	3,008					3,008
Intergovernmental	2,486	61,592				64,078
Charges for services	2,903					2,903
Fines	423					423
Donations	28,209				38,238	66,447
Reimbursements	825					825
Miscellaneous	3,251					3,251
Total receipts	229,360	61,592	52,029	39,452	38,238	420,671
Disbursements:						
Operating:						
Public safety	96,596		19,254			115,850
Public works	52,160	32,227	21,459			105,846
Culture and recreation	52,477		1,987			54,464
Community and economic development	1,733					1,733
General government	72,961		10,771			83,732
Debt service				358,512		358,512
Capital projects					371,642	371,642
Total disbursements	275,927	32,227	53,471	358,512	371,642	1,091,779
Excess (deficiency) of receipts over (under) disbursements	(46,567)	29,365	(1,442)	(319,060)	(333,404)	(671,108)
Other financing sources (uses):						
Sale of capital assets	389					389
Bond issue				322,042	479,411	801,453
Short-term borrowing	7,200			65,000		72,200
Short-term debt retired				(65,000)		(65,000)
Total other financing sources (uses)	7,589			322,042	479,411	809,042
Net change in cash balances	(38,978)	29,365	(1,442)	2,982	146,007	137,934
Cash balances beginning of year	42,407	23,669	38,039	8,615	55,723	168,453
Cash balances end of year	\$ 3,429	53,034	36,597	11,597	201,730	306,387
Cash Basis Fund Balances						
Reserved:						
Debt service				11,597		11,597
Unreserved:						
General fund	\$ 3,429					3,429
Special revenue fund		53,034	36,597			89,631
Capital projects fund					201,730	201,730
Total cash basis fund balances	\$ 3,429	53,034	36,597	11,597	201,730	306,387

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, 2007

	Proprietary Funds				Total
	Water	Sewer Rental	Sewer Revenue Reserve	Sewer Improvement	
Operating receipts:					
Charges for service	\$ 102,282	63,495			165,777
Miscellaneous	8,714				8,714
Total operating receipts	110,996	63,495			174,491
Operating disbursements:					
Business type activities	54,100	14,390			68,490
Total operating disbursements	54,100	14,390			68,490
Excess of operating receipts over operating disbursements	56,896	49,105			106,001
Non-operating (disbursements):					
Debt service		(23,382)			(23,382)
Excess of receipts over disbursements	56,896	25,723			82,619
Cash balance beginning of year	113,385	58,157	2,049	4,500	178,091
Cash balances end of year	\$ 170,281	83,880	2,049	4,500	260,710
Cash Basis Fund Balances					
Reserved for debt service			2,049	4,500	6,549
Unreserved	\$ 170,281	83,880			254,161
Total cash basis fund balances	\$ 170,281	83,880	2,049	4,500	260,710

See notes to financial statements.

CITY OF KANAWHA

Notes to Financial Statements

June 30, 2007

(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:

Notes to Financial Statements (continued)

June 30, 2007

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 Employee Benefits Fund is used to account for property tax collected and payment of employee benefits.

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

The Capital Projects Fund accounts for major capital improvements of the City.

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, 2007

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, 2007, disbursements exceeded the amounts budgeted in the debt service and capital projects functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 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, 2007

(3) Bonds Payable

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

Year Ending June 30,	Revenue Note		General Obligation Notes & Short-term Borrowing		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 20,000	6,114	66,644	40,023	86,644	46,137
2009	21,000	5,202	76,745	34,289	97,745	39,491
2010	22,000	4,244	86,850	30,938	108,850	35,182
2011	23,000	3,240	91,961	27,178	114,961	30,418
2012	23,000	2,190	70,000	23,213	93,000	25,403
2013	25,000	1,140	50,000	20,412	75,000	21,552
2014			55,000	18,413	55,000	18,413
2015			55,000	16,212	55,000	16,212
2016			60,000	13,958	60,000	13,958
2017			65,000	11,482	65,000	11,482
2018			65,000	8,785	65,000	8,785
2019			70,000	6,055	70,000	6,055
2020			70,000	3,045	70,000	3,045
Total	<u>\$134,000</u>	<u>22,130</u>	<u>882,200</u>	<u>254,003</u>	<u>1,016,200</u>	<u>276,133</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.

June 30, 2007

(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, 2007, 2006 and 2005 were \$8,875, \$13,991, and \$8,182 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, 2007, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2007</u>
Vacation	\$ <u>5,363</u>

This liability has been computed based on rates of pay as of June 30, 2007.

(6) Leases

The City of Kanawha has entered into a lease purchase agreement to lease a police vehicle. The following is a schedule of the future minimum lease payments and the present value of net minimum lease payments under the agreement in effect at June 30, 2007.

<u>Year Ending</u>	<u>Police Vehicle</u>
2008	\$ 14,765
2009	4,764
2010	4,764
2011	<u>4,765</u>
Total	29,058
Less amount representing interest	<u>4,204</u>
Present value of minimum net lease payments	\$ <u>24,854</u>

Notes to Financial Statements (continued)

June 30, 2007

(7) Related Party Transactions

No transactions between the City and City officials occurred during the year ended June 30, 2007.

(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, 2007

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Funds		Original	Final	Total
	Actual	Actual		Variance		
Receipts:						
Property tax	\$ 230,406		230,406	213,729	213,729	16,677
Other city tax	49,065		49,065	50,480	50,480	(1,415)
Licenses and permits	265		265	400	400	(135)
Use of money and property	3,008		3,008	3,000	351,839	(348,831)
Intergovernmental	64,078		64,078	287,918	287,918	(223,840)
Charges for services	2,903	165,777	168,680	184,200	184,200	(15,520)
Miscellaneous	70,946	8,714	79,660	25,350	25,350	54,310
Total receipts	<u>420,671</u>	<u>174,491</u>	<u>595,162</u>	<u>765,077</u>	<u>1,113,916</u>	<u>(518,754)</u>
Disbursements:						
Public safety	115,850		115,850	133,249	133,249	17,399
Public works	105,846		105,846	371,930	371,930	266,084
Health and social services				4,000	4,000	4,000
Culture and recreation	54,464		54,464	63,721	63,721	9,257
Community and economic development	1,733		1,733	3,000	3,000	1,267
General government	83,732		83,732	94,136	94,136	10,404
Debt service	358,512		358,512	61,646	61,646	(296,866)
Capital projects	371,642		371,642		348,513	(23,129)
Business type activities		91,872	91,872	115,017	115,017	23,145
Total disbursements	<u>1,091,779</u>	<u>91,872</u>	<u>1,183,651</u>	<u>846,699</u>	<u>1,195,212</u>	<u>11,561</u>
Excess (deficiency) of receipts over (under) disbursements	(671,108)	82,619	(588,489)	(81,622)	(81,296)	(507,193)
Other financing sources, net	809,042		809,042			809,042
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	137,934	82,619	220,553	(81,622)	(81,296)	301,849
Balances beginning of year	168,453	178,091	346,544	358,697	358,697	(12,153)
Cash balances end of year	<u>\$ 306,387</u>	<u>260,710</u>	<u>567,097</u>	<u>277,075</u>	<u>277,401</u>	<u>289,696</u>

See accompanying independent auditor's report.

City of Kanawha

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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, budget amendment increased budgeted disbursements by \$328,513. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amount budgeted in the debt service and capital projects functions.

OTHER SUPPLEMENTARY INFORMATION

Schedule 1

City of Kanawha

Schedule of Indebtedness

Year ended June 30, 2007

Obligation	Date of Issue	Rate of Interest	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation bonds:								
Fire department	5/1/1995	5.50 - 5.65%	\$ 150,000	75,000		15,000	60,000	4,238
General corporate purpose	10/1/2000	4.80 - 5.50	430,000	320,000		320,000		17,208
General corporate purpose	5/1/2007	4.00 - 4.35	815,000		815,000		815,000	
Short-term borrowing	5/24/2007	5.95	7,200		7,200		7,200	
Total				395,000	822,200	335,000	882,200	21,446
Revenue bond:								
Sewer lagoon	12/30/1992	4.62%	\$ 242,000	118,000		15,000	103,000	3,315
Sewer	12/30/1992	4.37	73,000	35,000		4,000	31,000	990
Total				153,000		19,000	134,000	4,305

See accompanying independent auditor's report.

Schedule 2

CITY OF KANAWHA

Bond and Note Maturities

June 30, 2007

GENERAL OBLIGATION NOTES

Year Ending June 30,	Fire Department Issued May 1, 1995		General Corporate Purpose Issued October 1, 2000		Short-term Borrowing Issued May 1, 2007		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2008	5.65%	\$ 15,000	4.000	50,000	5.95	1,644	66,644
2009	5.65	15,000	4.000	60,000	5.95	1,745	76,745
2010	5.65	15,000	4.000	70,000	5.95	1,850	86,850
2011	5.65	15,000	4.000	75,000	5.95	1,961	91,961
2012			4.000	70,000			70,000
2013			4.000	50,000			50,000
2014			4.000	55,000			55,000
2015			4.100	55,000			55,000
2016			4.125	60,000			60,000
2017			4.150	65,000			65,000
2018			4.200	65,000			65,000
2019			4.300	70,000			70,000
2020			4.350	70,000			70,000
Total		\$ 60,000		815,000		7,200	882,200

REVENUE NOTES

Year Ending June 30,	Sewer Lagoon Issued December 30, 1992		Sewer Issued December 30, 1992		Total
	Interest Rates	Amount	Interest Rates	Amount	
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
		\$ 103,000		31,000	134,000

See accompanying independent auditor's report.

Schedule 3

CITY OF KANAWHA

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

For the Last Four Years

	2007	2006	2005	2004
Receipts:				
Property tax	\$ 230,406	222,467	220,944	204,334
Other city tax	49,065	51,972	44,957	46,235
Licenses and permits	265	678	1,015	570
Use of money and property	3,008	4,266	2,961	2,461
Intergovernmental	64,078	125,571	74,199	110,985
Charges for service	2,903	290	2,467	16,207
Miscellaneous	70,946	55,921	106,000	67,235
Total	\$ 420,671	461,165	452,543	448,027
Disbursements:				
Operating:				
Public safety	\$ 115,850	181,550	110,432	163,609
Public works	105,846	134,784	145,840	109,102
Culture and recreation	54,464	55,068	61,138	59,911
Community and economic development	1,733	2,860		2,805
General government	83,732	79,402	69,823	56,736
Debt service	358,512	58,460	76,075	68,035
Capital projects	371,642	30,096	10,000	
Total	\$ 1,091,779	542,220	473,308	460,198

See accompanying independent auditor's report.

Rates and Customer Usage:

At June 30, 2007 the City had approximately 350 customers using the wastewater treatment system.

At June 30, 2007 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	\$ 592,003	\$ 250	90%
Municipal building contents	74,263	250	90
Old city hall	61,304	250	90
Old city hall contents	7,692	250	90
Water tower	350,000	250	90
Water building and equipment	1,420	250	90
Sewage lift station equipment	1,367	250	90
Sewage lift station	36,634	250	90
Fences and lighting	68,688	250	90
Shelter house/concession stand	25,758	250	90
Shelter house-picnic	22,896	250	90
Shelter house contents	7,426	250	90
Centennial Store	27,319	250	90
Pole Shelter	6,296	250	90
Water treatment facility	490,547	250	90
Water treatment building contents	11,473	250	90
Mobile equipment	actual cash value	250	100
Liability-each occurrence	1,000,000		
Vehicles	actual cash value	250	

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, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated December 21, 2007. Our report expressed unqualified opinions 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Kanawha's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Kanawha's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Kanawha's, ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Kanawha's financial statements that is more than inconsequential will not be prevented or detected by the City of Kanawha's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in the internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Kanawha's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items I-

A-07 and I-B-07 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.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Kanawha's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Kanawha's responses and, accordingly, we express no opinion of them.

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.

December 21, 2007

Renner & Birchem, P.C.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2007

Part I: Findings Related to the Financial Statements:

Significant Deficiencies:

I-A-07 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.

I-B-07 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

City of Kanawha

Schedule of Findings

Year Ended June 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

II-A-07 Certified Budget – Disbursements during the year ended June 30, 2007, exceeded amounts budgeted in the 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.

II-B-07 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-C-07 Business Transactions - No transactions between the City and City officials were noted.

II-D-07 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.

II-E-07 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not. However, 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.

II-F-07 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.

II-G-07 Revenue Notes – The revenue note provisions continue to be not compiled with during the year ended June 30, 2007. 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.