

CITY OF KALONA, IOWA  
INDEPENDENT AUDITOR'S REPORTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2008

CITY OF KALONA, IOWA  
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CITY OF KALONA, IOWA  
OFFICIALS  
June 30, 2008

| <u>Name</u>     | <u>Title</u>       | <u>Term Expires</u> |
|-----------------|--------------------|---------------------|
| Jerry Kauffman  | Mayor              | December, 2011      |
| Ken Herington   | Mayor Pro tem      | December, 2009      |
| Steve Lafaurie  | Council Member     | December, 2011      |
| David Bentley   | Council Member     | December, 2009      |
| Claudine Miller | Council Member     | December, 2011      |
| Aaron Kos       | Council Member     | December, 2009      |
| Doug Morgan     | City Administrator | Indefinite          |
| Karen Christner | City Clerk         | Appointed           |

# Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369  
ATLANTIC, IOWA 50022-0369  
(712) 243-1800  
FAX (712) 243-1265  
CPA@GBKCO.COM

MARK D. KYHNN  
DAVID L. HANNASCH  
KENNETH P. TEGELS  
CHRISTOPHER J. NELSON  
DAVID A. GINTHER

## 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 Kalona, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of city officials. Our responsibility is to express an opinion 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 and provisions 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 officials, as well as evaluating the overall financial statement presentation. We believe 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.

As explained in Note 1, the operations of two component units are excluded from these financial statements. In our opinion, accounting principles generally accepted in the United States of America require that such entities be blended with these financial statements.

In our opinion, except for the effects of the exclusion of the component units required to be included, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Kalona as of June 30, 2008, 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.

To the Honorable Mayor and  
Members of the City Council

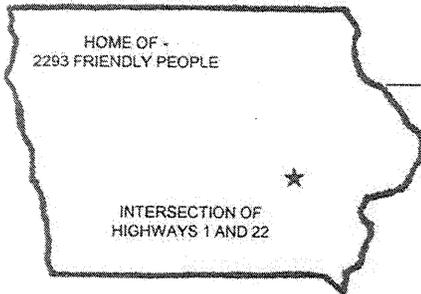
In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2008 on our consideration of the City of Kalona's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and 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 4 through 4d and 17 through 18 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 City of Kalona'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 two years ended June 30, 2007 (none of which are presented herein) and expressed qualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The financial statements for the year ended June 30, 2005 (none of which are presented herein), were audited by other auditors whose reports expressed qualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The 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.

*G. Howard, Bell, Kyhan & Co. P.C.*

Atlantic, Iowa  
October 3, 2008



# CITY OF KALONA

511 C Avenue • P.O. Box 1213

KALONA, IOWA 52247-1213

AREA CODE 319-656-2310

CITY COUNCIL

City of Kalona

## Management's Discussion & Analysis

KEN HERINGTON  
STEVE LAFAURIE  
CLAUDINE MILLER  
DAVID BENTLEY  
AARON KOS

The City of Kalona provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2008 FINANCIAL HIGHLIGHTS

- Revenues of the City decreased approximately 3% from fiscal year 2007 to 2008 because of insurance claims received in 2007.
- Disbursements of the City increased approximately 25% from fiscal year 2007 to 2008 due to completion of street improvement project, major repairs to sewer mains, Iowa Department of Economic Development Housing Project, and Campground Shower Project.
- The City's total cash basis net assets decreased approximately 9.7% or \$326,693 due mainly to completion of 3 projects during this time and major repairs to sewer mains. Of this amount, the assets of the governmental activities decreased approximately \$190,055 and the assets of the business type activities decreased by approximately \$136,638.

### USING THIS ANNUAL REPORT

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

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

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

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

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

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

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*

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

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

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

### *Fund Financial Statements*

The City has two kinds of funds:

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

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

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

The required financial statement for proprietary funds is 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 \$2,498,315 to \$2,308,260. The analysis focuses on the changes in cash balances for governmental activities.

### Changes in Cash Basis Net Assets of Governmental Activities

|  | Year ended June 30, |                     |
|--|---------------------|---------------------|
|  | 2008                | 2007                |
| Receipts and transfers:  |                     |                     |
| Program receipts:  |                     |                     |
| Charges for services   | \$ 100,004          | \$ 89,026           |
| Operating Grants   | 371,898             | 228,509             |
| General receipts:  |                     |                     |
| Property tax   | 650,770             | 659,797             |
| Debt Service   | 24,592              | 27,063              |
| Local Option Sales Tax   | 228,000             | 215,787             |
| TIF Revenues   | 103,253             | 222,404             |
| Other City Tax   | 16,718              | --                  |
| Grants and contributions not restricted to a<br>specific purpose | 179,702             | 62,490              |
| Unrestricted interest  | 74,555              | 89,710              |
| Miscellaneous  | 36,418              | 112,400             |
| Transfer – In  | 76,342              | 95,849              |
| Total receipts and transfers                                     | <u>1,862,252</u>    | <u>1,803,035</u>    |
| Disbursements and transfers:                                     |                     |                     |
| Public safety  | 167,840             | 142,978             |
| Public works   | 395,722             | 481,566             |
| Culture and recreation   | 502,739             | 370,763             |
| Community and economic development                               | 485,000             | 348,316             |
| General government   | 399,324             | 186,825             |
| Debt service   | 25,340              | 26,248              |
| Transfers – Out  | 76,342              | 95,849              |
| Total disbursements and transfers                                | <u>2,052,307</u>    | <u>1,652,545</u>    |
| Increase (decrease) in cash basis net                            | ( 190,055)          | 150,490             |
| Cash basis net assets beginning of year                          | <u>2,498,315</u>    | <u>2,347,825</u>    |
| Cash basis net assets end of year                                | <u>\$ 2,308,260</u> | <u>\$ 2,498,315</u> |

## Changes in Cash Basis Net Assets of Business Type Activities

|  | <u>Year ended June 30,</u> |                   |
|--|----------------------------|-------------------|
|  | <u>2008</u>                | <u>2007</u>       |
| Receipts:                                    |                            |                   |
| Program receipts:                            |                            |                   |
| Charges for services                         |                            |                   |
| Water  | \$ 326,274                 | \$ 389,988        |
| Sewer  | 197,821                    | 226,594           |
| Garbage                                      | 47,044                     | 53,427            |
| General receipts:                            |                            |                   |
| Other general receipts                       | 32,912                     | 85,042            |
| Transfers in                                 | --                         | 57,686            |
| Total receipts                               | <u>604,051</u>             | <u>812,737</u>    |
| Disbursements and transfers:                 |                            |                   |
| Water  | 181,393                    | 196,566           |
| Sewer  | 243,359                    | 208,516           |
| Garbage                                      | 45,705                     | 40,667            |
| Debt Service                                 | 270,232                    | 175,564           |
| Transfers out                                | --                         | 57,686            |
| Total disbursements and transfers            | <u>740,689</u>             | <u>678,999</u>    |
| Increase (decrease) in cash basis net assets | ( 136,638)                 | 133,738           |
| Cash basis net assets beginning of year      | <u>880,980</u>             | <u>747,242</u>    |
| Cash basis net assets end of year            | <u>\$ 744,342</u>          | <u>\$ 880,980</u> |

### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Kalona, Iowa, completed the year, its funds reported a combined fund balance of \$3,052,602, which is a decrease of \$326,693. Major reasons for changes in balances from fiscal year 2007 are:

- The General Fund revenues showed an increase due to increase in Riverboat Casino Funds. Expenditures increased due to Electric Municipalization Project and Iowa Department of Economic Development Housing Project.
- The Road Use Tax Fund revenue increased slightly and is based on per capita dollars from the state and disbursements increased due to the finishing of a project and the harsh winter.
- The Tax Increment Financing Fund revenues decreased by \$119,151 in fiscal year 2008. Revenue decrease was due to the completion of development agreements formed with the City.
- The Local Option Sales Tax Fund revenues increased by \$12,213 from fiscal year 2007. Revenue increase was due to increased sales activity. Expenditures increased with the purchase of various infrastructure items by different departments throughout the City.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Utility Fund balance decreased by \$33,750 from fiscal year 2007 due to paying off a bond debt early.

The Sewer Utility Fund balance decreased by \$104,227 from fiscal year 2007 due to major repairs on sewer mains.

## BUDGETARY HIGHLIGHTS

The City amended its budget on January 21, 2008 resulting in an increase in disbursements of approximately \$464,072. Disbursements increased due to various street projects, Housing Grant Funds, Electric Municipalization Project, Campground Shower/Restroom Facility Project, and matching fund grants to the Fire Department and First Responders for equipment.

The City Amended its budget again on May 19, 2008 resulting in an increase of receipts of approximately \$319,115 and disbursements of approximately \$792,325. Receipts increased due to reimbursement funds for Housing Grant Project, Riverboat Casino Funds, and miscellaneous charges for services. Disbursements increased due to harsh winter and major snow removal, equipment purchases for Rec Center, Pool, Park, Housing Grant Funds, Electric Municipalization, and repairs to the sewer mains.

## DEBT ADMINISTRATION

At June 30, 2008, the City had approximately \$2,727,000 in notes and other long-term debt, compared to approximately \$2,996,000 last year, as shown below.  
Outstanding Debt at Year-End

|  | Year ended June 30,     |                         |
|--|-------------------------|-------------------------|
|  | 2008                    | 2007                    |
| General Obligation Corporate Purpose Bonds |                         |                         |
| 1997 Water Project                         | \$ --                   | \$ 125,000              |
| 1995 Sewer Project (State Revolving Fund)  | 221,000                 | 247,000                 |
| 2003 Water Project (State Revolving Fund)  | 901,000                 | 944,000                 |
| 2003 Sewer Project (State Revolving Fund)  | 425,000                 | 445,000                 |
| 2004 Library Project                       | 1,180,000               | 1,235,000               |
|  | <u>1,180,000</u>        | <u>1,235,000</u>        |
| <br>Total                                  | <br><u>\$ 2,727,000</u> | <br><u>\$ 2,996,000</u> |

Debt decreased as principal was paid down.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City of Kalona's elected and appointed officials considered factors such as tax rates and fees that will be charged for various City activities when they adopted the 2009 budget.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF KALONA, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
As of and for the year ended June 30, 2008

|   | <u>Disbursements</u>       | <u>Charges for Service</u> | <u>Program Receipts</u><br>Operating Grants,<br>Contributions,<br>and Restricted<br>Interest |
|---|----------------------------|----------------------------|--|
| Functions/Programs:   |                            |                            |  |
| Governmental activities:                                      |                            |                            |  |
| Public safety   | \$ 167,840                 | \$ 471                     | \$ --  |
| Public works  | 395,722                    | 3,265                      | 196,448  |
| Culture and recreation  | 502,739                    | 80,081                     | 24,938   |
| Community and economic development                            | 485,000                    | --                         | 150,512  |
| General government  | 399,324                    | 16,187                     | --   |
| Debt service  | 25,340                     | --                         | --   |
| Total governmental activities                                 | <u>1,975,965</u>           | <u>100,004</u>             | <u>371,898</u>   |
| Business type activities:                                     |                            |                            |  |
| Water   | 383,629                    | 326,274                    | --   |
| Sewer   | 311,355                    | 197,821                    | --   |
| Garbage   | 45,705                     | 47,044                     | --   |
| Total business type activities                                | <u>740,689</u>             | <u>571,139</u>             | <u>--</u>  |
| <b>Total</b>  | <u><u>\$ 2,716,654</u></u> | <u><u>\$ 671,143</u></u>   | <u><u>\$ 371,898</u></u>   |
| General Receipts:   |                            |                            |  |
| Property tax levied for:                                      |                            |                            |  |
| General purposes  |                            |                            |  |
| Tax increment financing                                       |                            |                            |  |
| Debt service  |                            |                            |  |
| Local option sales tax  |                            |                            |  |
| Other city tax  |                            |                            |  |
| Grants and contributions not restricted to a specific purpose |                            |                            |  |
| Unrestricted interest on investments                          |                            |                            |  |
| Miscellaneous   |                            |                            |  |
| Total general receipts and transfers                          |                            |                            |  |
| Change in cash basis net assets                               |                            |                            |  |
| Cash basis net assets beginning of year                       |                            |                            |  |
| Cash basis net assets end of year                             |                            |                            |  |

(continued next page)

| Program<br>Receipts<br>Capital Grants,<br>Contributions,<br>and Restricted<br>Interest | Net (Disbursements) Receipts and<br>Changes in Cash Basis Net Assets |                             |                     |
|--|--|-----------------------------|---------------------|
|  | Governmental<br>Activities   | Business Type<br>Activities | Total               |
| \$ --  | \$( 167,369)   | \$ --                       | \$( 167,369)        |
| --   | ( 196,009)   | --                          | ( 196,009)          |
| --   | ( 397,720)   | --                          | ( 397,720)          |
| --   | ( 334,488)   | --                          | ( 334,488)          |
| --   | ( 383,137)   | --                          | ( 383,137)          |
| --   | ( 25,340)  | --                          | ( 25,340)           |
| --   | ( 1,504,063)   | --                          | ( 1,504,063)        |
| --   | --   | ( 57,355)                   | ( 57,355)           |
| --   | --   | ( 113,534)                  | ( 113,534)          |
| --   | --   | 1,339                       | 1,339               |
| --   | --   | ( 169,550)                  | ( 169,550)          |
| <u>\$ --</u>   | <u>( 1,504,063)</u>  | <u>( 169,550)</u>           | <u>( 1,673,613)</u> |
|  | 650,770  | --                          | 650,770             |
|  | 103,253  | --                          | 103,253             |
|  | 24,592   | --                          | 24,592              |
|  | 228,000  | --                          | 228,000             |
|  | 16,718   | --                          | 16,718              |
|  | 179,702  | --                          | 179,702             |
|  | 74,555   | 12,765                      | 87,320              |
|  | 36,418   | 20,147                      | 56,565              |
|  | <u>1,314,008</u>   | <u>32,912</u>               | <u>1,346,920</u>    |
|  | ( 190,055)   | ( 136,638)                  | ( 326,693)          |
|  | <u>2,498,315</u>   | <u>880,980</u>              | <u>3,379,295</u>    |
|  | <u>\$ 2,308,260</u>  | <u>\$ 744,342</u>           | <u>\$ 3,052,602</u> |

CITY OF KALONA, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS - Continued

As of and for the year ended June 30, 2008

|                             | <u>Disbursements</u> | <u>Charges for<br/>Service</u> | <u>Program Receipts</u><br>Operating Grants,<br>Contributions,<br>and Restricted<br>Interest |
|-----------------------------|----------------------|--------------------------------|--|
| Cash Basis Net Assets       |                      |                                |  |
| Restricted:                 |                      |                                |  |
| Streets                     |                      |                                |  |
| Urban renewal projects      |                      |                                |  |
| Debt service                |                      |                                |  |
| Other purposes              |                      |                                |  |
| Unrestricted                |                      |                                |  |
| Total cash basis net assets |                      |                                |  |

The accompanying notes are an integral part of these statements.

| <u>Program Receipts</u><br>Capital Grants,<br>Contributions,<br>and Restricted<br>Interest | <u>Net (Disbursements) Receipts and<br/>Changes in Cash Basis Net Assets</u> |                                     |                     |
|--|--|-------------------------------------|---------------------|
|  | <u>Governmental<br/>Activities</u>   | <u>Business Type<br/>Activities</u> | <u>Total</u>        |
|  | \$ 239,795   | \$ --                               | \$ 239,795          |
|  | 181,244  | --                                  | 181,244             |
|  | 140,646  | --                                  | 140,646             |
|  | 346,974  | --                                  | 346,974             |
|  | <u>1,399,601</u>   | <u>744,342</u>                      | <u>2,143,943</u>    |
|  | <u>\$ 2,308,260</u>  | <u>\$ 744,342</u>                   | <u>\$ 3,052,602</u> |

CITY OF KALONA, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2008

|   | General      | Special<br>Revenue<br>Road Use<br>Tax |
|---|--------------|---------------------------------------|
| Receipts:   |              |                                       |
| Property tax  | \$ 575,787   | \$ --                                 |
| Tax increment financing collections                           | --           | --                                    |
| Other city tax  | 14,095       | --                                    |
| Use of money and property                                     | 73,210       | --                                    |
| Licenses and permits  | 6,335        | --                                    |
| Intergovernmental   | 175,450      | 196,448                               |
| Charges for service   | 92,198       | --                                    |
| Miscellaneous   | 216,591      | --                                    |
| Total receipts  | 1,153,666    | 196,448                               |
| Disbursements:  |              |                                       |
| Operating:  |              |                                       |
| Public safety   | 167,840      | --                                    |
| Public works  | 103,901      | 280,791                               |
| Culture and recreation  | 466,851      | --                                    |
| Community and economic development                            | 20,500       | --                                    |
| General government  | 387,962      | --                                    |
| Debt service  | --           | --                                    |
| Total disbursements   | 1,147,054    | 280,791                               |
| Excess (deficiency) of receipts over<br>(under) disbursements | 6,612        | ( 84,343)                             |
| Other financing sources (uses):                               |              |                                       |
| Operating transfers in  | 76,342       | --                                    |
| Operating transfers out                                       | --           | --                                    |
| Total other financing sources (uses)                          | 76,342       | --                                    |
| Net change in cash balances                                   | 82,954       | ( 84,343)                             |
| Cash balances beginning of year                               | 1,316,647    | 324,138                               |
| Cash balances end of year                                     | \$ 1,399,601 | \$ 239,795                            |

(continued next page)

| <u>Special<br/>Revenue</u>        |                   |                     |
|-----------------------------------|-------------------|---------------------|
| <u>Local Option<br/>Sales Tax</u> | <u>Nonmajor</u>   | <u>Total</u>        |
| \$ --                             | \$ 99,575         | \$ 675,362          |
| --                                | 103,253           | 103,253             |
| 228,000                           | 2,623             | 244,718             |
| --                                | 2,345             | 75,555              |
| --                                | --                | 6,335               |
| --                                | --                | 371,898             |
| --                                | --                | 92,198              |
| --                                | --                | 216,591             |
| <u>228,000</u>                    | <u>207,796</u>    | <u>1,785,910</u>    |
| --                                | --                | 167,840             |
| --                                | 11,030            | 395,722             |
| --                                | 35,888            | 502,739             |
| 293,302                           | 171,198           | 485,000             |
| --                                | 11,362            | 399,324             |
| --                                | 25,340            | 25,340              |
| <u>293,302</u>                    | <u>254,818</u>    | <u>1,975,965</u>    |
| ( 65,302)                         | ( 47,022)         | ( 190,055)          |
| --                                | --                | 76,342              |
| <u>( 72,900)</u>                  | <u>( 3,442)</u>   | <u>( 76,342)</u>    |
| <u>( 72,900)</u>                  | <u>( 3,442)</u>   | <u>--</u>           |
| ( 138,202)                        | ( 50,464)         | ( 190,055)          |
| <u>395,617</u>                    | <u>461,913</u>    | <u>2,498,315</u>    |
| <u>\$ 257,415</u>                 | <u>\$ 411,449</u> | <u>\$ 2,308,260</u> |

CITY OF KALONA, IOWA  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN CASH BALANCES - Continued  
 GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2008

|                             | General      | Special<br>Revenue<br>Road Use<br>Tax |
|-----------------------------|--------------|---------------------------------------|
| Cash Basis Net Assets       |              |                                       |
| Reserved:                   |              |                                       |
| Debt service                | \$ --        | \$ --                                 |
| Unreserved:                 |              |                                       |
| General fund                | 1,399,601    | --                                    |
| Special revenue funds       | --           | 239,795                               |
| Total cash basis net assets | \$ 1,399,601 | \$ 239,795                            |

The accompanying notes are an integral part of these statements.

| <u>Special<br/>Revenue</u><br><u>Local Option<br/>Sales Tax</u> | <u>Nonmajor</u>   | <u>Total</u>        |
|---|-------------------|---------------------|
| \$       --   | \$    140,646     | \$    140,646       |
| --  | --                | 1,399,601           |
| <u>257,415</u>  | <u>270,803</u>    | <u>768,013</u>      |
| <u>\$ 257,415</u>   | <u>\$ 411,449</u> | <u>\$ 2,308,260</u> |

CITY OF KALONA, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS

As of and for the year ended June 30, 2008

|  | Enterprise Funds  |                   |                  | Total             |
|--|-------------------|-------------------|------------------|-------------------|
|  | Water             | Sewer             | Garbage          |                   |
| Operating Receipts:  |                   |                   |                  |                   |
| License and permits  | \$ 2,900          | \$ 3,454          | \$ --            | \$ 6,354          |
| Charges for services   | <u>323,374</u>    | <u>194,367</u>    | <u>47,044</u>    | <u>564,785</u>    |
| Total operating receipts   | 326,274           | 197,821           | 47,044           | 571,139           |
| Operating Disbursements:   |                   |                   |                  |                   |
| Business type activities   | <u>181,393</u>    | <u>243,359</u>    | <u>45,705</u>    | <u>470,457</u>    |
| Total operating disbursements  | <u>181,393</u>    | <u>243,359</u>    | <u>45,705</u>    | <u>470,457</u>    |
| Excess (deficiency) of operating receipts<br>over (under) operating disbursements                | 144,881           | ( 45,538)         | 1,339            | 100,682           |
| Non-operating receipts (disbursements):  |                   |                   |                  |                   |
| Interest on investments  | 4,729             | 8,036             | --               | 12,765            |
| Miscellaneous  | 18,876            | 1,271             | --               | 20,147            |
| Debt service   | <u>( 202,236)</u> | <u>( 67,996)</u>  | <u>--</u>        | <u>( 270,232)</u> |
| Total non-operating receipts<br>(disbursements)  | <u>( 178,631)</u> | <u>( 58,689)</u>  | <u>--</u>        | <u>( 237,320)</u> |
| Excess (deficiency) of receipts over (under)<br>disbursements and net change in cash<br>balances | ( 33,750)         | ( 104,227)        | 1,339            | ( 136,638)        |
| Cash balances beginning of year  | <u>359,905</u>    | <u>474,988</u>    | <u>46,087</u>    | <u>880,980</u>    |
| Cash balances end of year  | <u>\$ 326,155</u> | <u>\$ 370,761</u> | <u>\$ 47,426</u> | <u>\$ 744,342</u> |
| Cash Basis Fund Balances   |                   |                   |                  |                   |
| Unreserved   | <u>\$ 326,155</u> | <u>\$ 370,761</u> | <u>\$ 47,426</u> | <u>\$ 744,342</u> |
| Total cash basis fund balances   | <u>\$ 326,155</u> | <u>\$ 370,761</u> | <u>\$ 47,426</u> | <u>\$ 744,342</u> |

The accompanying notes are an integral part of these statements.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

For financial reporting purposes, the City of Kalona has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

Excluded Component Units

The City has two component units. The Kalona Library Foundation, which is a non-profit corporation that is legally separate, is a component unit because it has the potential to provide benefits to the City of Kalona Library. The Friends of the Kalona Library is a separate non-profit organization created for the sole purpose of raising funds to support the Kalona Library. The City has elected to exclude the financial information of its component units from these financial statements. Both component units should be blended into the Special Revenue Funds of the City of Kalona.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Washington County Joint E911 Service Board and Washington County Assessor's Board.

B. Basis of Presentation

Government-wide Financial Statements

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

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

Fund Financial Statements

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charge 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 Sales Tax Fund is used to account for projects financed by the Local Option Sales Tax.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

The City also reports the following additional proprietary fund:

The Garbage Fund accounts for the operation and maintenance of the City's garbage service.

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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.

NOTE 2 - CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2008 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.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

NOTE 2 - CASH AND POOLED INVESTMENTS - Continued

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.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City had no investments with credit risk.

NOTE 3 - BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation and revenue capital loan notes are as follows:

| Year Ending<br>June 30, | General Obligation<br>Capital Loan Notes |                   | Revenue<br>Capital Loan Notes |                   | Total              |                   |
|-------------------------|--|-------------------|-------------------------------|-------------------|--------------------|-------------------|
|                         | Principal                                | Interest          | Principal                     | Interest          | Principal          | Interest          |
| 2009                    | \$ 55,000                                | \$ 44,268         | \$ 94,000                     | \$ 46,410         | \$ 149,000         | \$ 90,678         |
| 2010                    | 60,000                                   | 43,030            | 97,000                        | 43,590            | 157,000            | 86,620            |
| 2011                    | 60,000                                   | 41,500            | 99,000                        | 40,680            | 159,000            | 82,180            |
| 2012                    | 60,000                                   | 39,850            | 103,000                       | 37,710            | 163,000            | 77,560            |
| 2013                    | 65,000                                   | 38,050            | 107,000                       | 34,620            | 172,000            | 72,670            |
| 2014                    | 65,000                                   | 35,938            | 110,000                       | 31,410            | 175,000            | 67,348            |
| 2015                    | 65,000                                   | 33,695            | 114,000                       | 28,110            | 179,000            | 61,805            |
| 2016                    | 70,000                                   | 31,355            | 81,000                        | 24,690            | 151,000            | 56,045            |
| 2017                    | 70,000                                   | 28,730            | 84,000                        | 22,260            | 154,000            | 50,990            |
| 2018                    | 75,000                                   | 26,035            | 86,000                        | 19,740            | 161,000            | 45,775            |
| 2019                    | 80,000                                   | 23,073            | 88,000                        | 17,160            | 168,000            | 40,233            |
| 2020                    | 85,000                                   | 19,833            | 91,000                        | 14,520            | 176,000            | 34,353            |
| 2021                    | 85,000                                   | 16,305            | 94,000                        | 11,790            | 179,000            | 28,095            |
| 2022                    | 90,000                                   | 12,693            | 97,000                        | 8,970             | 187,000            | 21,663            |
| 2023                    | 95,000                                   | 8,777             | 99,000                        | 6,060             | 194,000            | 14,837            |
| 2024                    | 100,000                                  | 4,550             | 103,000                       | 3,090             | 203,000            | 7,640             |
|                         | <u>\$1,180,000</u>                       | <u>\$ 447,682</u> | <u>\$1,547,000</u>            | <u>\$ 390,810</u> | <u>\$2,727,000</u> | <u>\$ 838,492</u> |

The Code of Iowa requires that principal and interest on general obligation capital loan notes be paid from the Debt Service Fund. However, during the year, \$125,000 of note principal and \$3,306 of interest was paid from the Enterprise Water Fund and \$29,660 of note principal and \$45,340 of interest was paid out of the Special Revenue, Local Option Sales Tax Fund.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

NOTE 3 - BONDS AND NOTES PAYABLE - Continued

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,067,000 in water revenue notes issued in August, 2003. Proceeds from the notes provided financing for the repair and improvement of the water system. The notes are payable solely from water customer net receipts and are payable through 2024. Annual principal and interest payments on the notes are expected to require less than 50 percent of the net receipts. The total principal and interest remaining to be paid on the notes is \$1,147,750. For the current year, principal and interest paid and total customer net receipts were \$71,320 and \$144,881, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$992,000 in sewer revenue notes issued in February, 1995 and December, 2003. Proceeds from the notes provided financing for the repair and improvement of the sewer system. The notes are payable solely from sewer customer net receipts and are payable through 2024. Annual principal and interest payments on the notes are expected to require less than 80 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$790,060. For the current year, principal and interest paid and total customer net receipts were \$66,760 and \$(45,538), respectively. Existing net assets are used to meet debt service payments in years when the net receipts are not sufficient.

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

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient transfers shall be made into a separate and special fund to pay current expenses. The fund shall be known as the Sewer/Water Utility Operation and Maintenance Fund. There shall be deposited in the fund each month an amount sufficient to meet the current expenses of the month plus an amount equal to 1/12 of expenses payable on an annual basis such as insurance.
- c. Moneys shall next be disbursed to a separate and special fund to pay principal of and interest on the Notes and Parity Obligations known as the Sewer/Water Revenue Note Principal and Interest Sinking Fund (the "Sinking Fund"). The required amount to be deposited in the Sinking Fund in any month shall be an amount equal to 1/6 of the installment of interest coming due on the next payment and 1/12 of the installment of principal coming due on the next payment date.

NOTE 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.

CITY OF KALONA, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2008

NOTE 4 - PENSION AND RETIREMENT BENEFITS - Continued

Most regular plan members are required to contribute 3.90% (4.10% effective July 1, 2008) of their annual covered salary and the City is required to contribute 6.05% (6.35% effective July 1, 2008) of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$19,939, \$18,114, and \$16,844, respectively, equal to the required contribution for each year.

NOTE 5 - COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time payable to employees at June 30, 2008 is \$13,300 for vacation and \$16,300 for comp time, for a total liability of \$29,600. This liability has been computed on rates of pay in effect at June 30, 2008.

NOTE 6 - RISK MANAGEMENT

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

NOTE 7 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u>    |
|--------------------|----------------------|------------------|
| General            | Local Option Sales   |                  |
|                    | Tax                  | \$ 72,900        |
|                    | Debt Service         | <u>3,442</u>     |
|                    |                      | <u>\$ 76,342</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

NOTE 8 - SERVICE AGREEMENTS

The City has an agreement with Washington County to provide police protection for its citizens. The City paid \$67,888 for services during the year ended June 30, 2008, and approved an agreement in the amount of \$68,731 for the year ending June 30, 2009.

NOTE 9 - CONDUIT DEBT OBLIGATION

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

NOTE 10 - INTERFUND LOAN

The City entered into an interfund loan agreement in 2008. The General Fund loaned the Urban Renewal Fund \$78,009 for costs relating to street projects. The Urban Renewal Tax Fund will repay the General Fund as tax revenues are received with no interest.

NOTE 11 - CONSTRUCTION CONTRACT

The City has entered into a construction contract that is still in process as of June 30, 2008. The net remaining amount committed to this contract is approximately \$53,000, which will be paid with grant and existing funds.

\* \* \*

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KALONA, IOWA  
 BUDGETARY COMPARISON SCHEDULE  
 OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -  
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL  
 FUNDS AND PROPRIETRY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2008

|   | <u>Governmental<br/>Funds Actual</u> | <u>Proprietary<br/>Funds Actual</u> | <u>Total</u>        |
|---|--------------------------------------|-------------------------------------|---------------------|
| Receipts:   |                                      |                                     |                     |
| Property tax  | \$ 675,362                           | \$ --                               | \$ 675,362          |
| Tax increment financing collections                           | 103,253                              | --                                  | 103,253             |
| Other city tax  | 244,718                              | --                                  | 244,718             |
| Use of money and property                                     | 75,555                               | 12,765                              | 88,320              |
| Licenses and permits  | 6,335                                | 6,354                               | 12,689              |
| Intergovernmental   | 371,898                              | --                                  | 371,898             |
| Charges for service   | 92,198                               | 564,785                             | 656,983             |
| Miscellaneous   | <u>216,591</u>                       | <u>20,147</u>                       | <u>236,738</u>      |
| Total receipts  | <u>1,785,910</u>                     | <u>604,051</u>                      | <u>2,389,961</u>    |
| Disbursements:  |                                      |                                     |                     |
| Public safety   | 167,840                              | --                                  | 167,840             |
| Public works  | 395,722                              | --                                  | 395,722             |
| Culture and recreation  | 502,739                              | --                                  | 502,739             |
| Community and economic<br>development                         | 485,000                              | --                                  | 485,000             |
| General government  | 399,324                              | --                                  | 399,324             |
| Debt service  | 25,340                               | --                                  | 25,340              |
| Business type activities                                      | --                                   | 740,689                             | 740,689             |
| Total disbursements   | <u>1,975,965</u>                     | <u>740,689</u>                      | <u>2,716,654</u>    |
| Excess (deficiency) of receipts<br>over (under) disbursements | ( 190,055)                           | ( 136,638)                          | ( 326,693)          |
| Balances beginning of year                                    | <u>2,498,315</u>                     | <u>880,980</u>                      | <u>3,379,295</u>    |
| Balances end of year  | <u>\$ 2,308,260</u>                  | <u>\$ 744,342</u>                   | <u>\$ 3,052,602</u> |

See accompanying independent auditor's report.

| <u>Budgeted Amounts</u> |                     | <u>Final to<br/>Total<br/>Variance</u> |
|-------------------------|---------------------|--|
| <u>Original</u>         | <u>Final</u>        |  |
| \$ 672,849              | \$ 672,849          | \$ 2,513                               |
| 102,940                 | 102,940             | 313                                    |
| 330,657                 | 225,999             | 18,719                                 |
| 38,409                  | 94,040              | ( 5,720)                               |
| 3,000                   | 12,262              | 427                                    |
| 202,484                 | 367,279             | 4,619                                  |
| 636,807                 | 675,622             | ( 18,639)                              |
| 9,250                   | 164,520             | 72,218                                 |
| <u>1,996,396</u>        | <u>2,315,511</u>    | <u>74,450</u>                          |
| 160,135                 | 169,585             | 1,745                                  |
| 309,277                 | 492,661             | 96,939                                 |
| 395,654                 | 618,981             | 116,242                                |
| 418,055                 | 712,222             | 227,222                                |
| 134,233                 | 426,190             | 26,866                                 |
| 25,340                  | 25,340              | --                                     |
| 532,936                 | 787,048             | 46,359                                 |
| <u>1,975,630</u>        | <u>3,232,027</u>    | <u>515,373</u>                         |
| 20,766                  | ( 916,516)          | 589,823                                |
| <u>3,148,973</u>        | <u>3,148,973</u>    | <u>230,322</u>                         |
| <u>\$ 3,169,739</u>     | <u>\$ 2,232,457</u> | <u>\$ 820,145</u>                      |

OTHER SUPPLEMENTARY INFORMATION

CITY OF KALONA, IOWA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -  
BUDGETARY REPORTING

June 30, 2008

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted included disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Enterprise 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, two budget amendments increased budgeted disbursements by \$1,256,397. The budget amendments are reflected in the final budgeted amount.

CITY OF KALONA, IOWA  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2008

|   | <u>Special Revenue</u>       |  |
|---|------------------------------|--|
|   | <u>Employee<br/>Benefits</u> | <u>Urban Renewal<br/>Tax Increment</u> |
| Receipts:   |                              |  |
| Property tax  | \$ 74,983                    | \$ --                                  |
| Tax increment financing collections                           | --                           | 103,253                                |
| Other City tax  | 1,767                        | --                                     |
| Use of money and property                                     | --                           | --                                     |
| Total receipts  | <u>76,750</u>                | <u>103,253</u>                         |
| Disbursements:  |                              |  |
| Operating:  |                              |  |
| Public works  | 11,030                       | --                                     |
| Culture and recreation  | 35,888                       | --                                     |
| Community and economic development                            | --                           | 171,198                                |
| General government  | 11,362                       | --                                     |
| Debt service  | --                           | --                                     |
| Total disbursements   | <u>58,280</u>                | <u>171,198</u>                         |
| Excess (deficiency) of receipts over (under)<br>disbursements | 18,470                       | ( 67,945)                              |
| Other financing uses:   |                              |  |
| Operating transfers out                                       | <u>--</u>                    | <u>--</u>                              |
| Total other financing uses                                    | <u>--</u>                    | <u>--</u>                              |
| Net change in cash balances                                   | 18,470                       | ( 67,945)                              |
| Cash balances beginning of year                               | <u>71,089</u>                | <u>249,189</u>                         |
| Cash balances end of year                                     | <u>\$ 89,559</u>             | <u>\$ 181,244</u>                      |
| Cash Basis Fund Balances                                      |                              |  |
| Reserved:   |                              |  |
| Debt service  | \$ --                        | \$ --                                  |
| Unreserved:   |                              |  |
| Special revenue funds   | <u>89,559</u>                | <u>181,244</u>                         |
| Total cash basis fund balances                                | <u>\$ 89,559</u>             | <u>\$ 181,244</u>                      |

See accompanying independent auditor's report.

| <u>Debt<br/>Service</u> | <u>Total</u>      |
|-------------------------|-------------------|
| \$ 24,592               | \$ 99,575         |
| --                      | 103,253           |
| 856                     | 2,623             |
| <u>2,345</u>            | <u>2,345</u>      |
| <u>27,793</u>           | <u>207,796</u>    |
| --                      | 11,030            |
| --                      | 35,888            |
| --                      | 171,198           |
| --                      | 11,362            |
| <u>25,340</u>           | <u>25,340</u>     |
| <u>25,340</u>           | <u>254,818</u>    |
| 2,453                   | ( 47,022)         |
| <u>( 3,442)</u>         | <u>( 3,442)</u>   |
| <u>( 3,442)</u>         | <u>( 3,442)</u>   |
| ( 989)                  | ( 50,464)         |
| <u>141,635</u>          | <u>461,913</u>    |
| <u>\$ 140,646</u>       | <u>\$ 411,449</u> |
| \$ 140,646              | \$ 140,646        |
| <u>--</u>               | <u>270,803</u>    |
| <u>\$ 140,646</u>       | <u>\$ 411,449</u> |

CITY OF KALONA, IOWA  
 SCHEDULE OF INDEBTEDNESS  
 Year ended June 30, 2008

| <u>Obligation</u>                      | <u>Date of<br/>Issue</u> | <u>Interest<br/>Rate</u> | <u>Amount<br/>Originally<br/>Issued</u> |
|--|--------------------------|--------------------------|---|
| General Obligation Capital Loan Notes: |                          |                          |   |
| Water                                  | April 1, 1997            | 4.10% - 5.45%            | \$ 350,000                              |
| Library                                | June 1, 2004             | 1.30% - 4.55%            | 1,400,000                               |
| Total General Obligation Notes         |                          |                          |   |
| Notes Payable:                         |                          |                          |   |
| State revolving fund loans             |                          |                          |   |
| Sewer                                  | February 13, 1995        | 3.00%                    | 489,000                                 |
| Water                                  | August 26, 2003          | 3.00%                    | 1,067,000                               |
| Sewer                                  | December 12, 2003        | 3.00%                    | 503,000                                 |
| Total SRF loans                        |                          |                          |   |
| Total                                  |                          |                          |   |

See accompanying independent auditor's report.

| <u>Balance<br/>Beginning<br/>of Year</u> | <u>Redeemed<br/>During<br/>Year</u> | <u>Balance<br/>End<br/>of Year</u> | <u>Interest<br/>Paid</u> | <u>Interest<br/>Due and<br/>Unpaid</u> |
|--|-------------------------------------|------------------------------------|--------------------------|--|
| \$ 125,000                               | \$ 125,000                          | \$ --                              | \$ 3,306                 | \$ --                                  |
| <u>1,235,000</u>                         | <u>55,000</u>                       | <u>1,180,000</u>                   | <u>45,340</u>            | <u>2,648</u>                           |
| <u>1,360,000</u>                         | <u>180,000</u>                      | <u>1,180,000</u>                   | <u>48,646</u>            | <u>2,648</u>                           |
| 247,000                                  | 26,000                              | 221,000                            | 7,410                    | 763                                    |
| 944,000                                  | 43,000                              | 901,000                            | 28,320                   | 3,110                                  |
| <u>445,000</u>                           | <u>20,000</u>                       | <u>425,000</u>                     | <u>13,350</u>            | <u>1,467</u>                           |
| <u>1,636,000</u>                         | <u>89,000</u>                       | <u>1,547,000</u>                   | <u>49,080</u>            | <u>5,340</u>                           |
| <u>\$2,996,000</u>                       | <u>\$ 269,000</u>                   | <u>\$2,727,000</u>                 | <u>\$ 97,726</u>         | <u>\$ 7,988</u>                        |

CITY OF KALONA, IOWA  
BOND AND NOTE MATURITIES  
June 30, 2008

| <u>Year ending<br/>June 30,</u> | <u>General Obligation<br/>Capital Loan Notes</u> |                    |                    |
|---------------------------------|--|--------------------|--------------------|
|                                 | <u>Library Note</u>                              |                    |                    |
|                                 | <u>Issued June 1, 2004</u>                       |                    |                    |
|                                 | <u>Interest<br/>Rate</u>                         | <u>Amount</u>      | <u>Total</u>       |
| 2009                            | 2.25%  | \$ 55,000          | \$ 55,000          |
| 2010                            | 2.55   | 60,000             | 60,000             |
| 2011                            | 2.75   | 60,000             | 60,000             |
| 2012                            | 3.00   | 60,000             | 60,000             |
| 2013                            | 3.25   | 65,000             | 65,000             |
| 2014 and beyond                 | 3.45-4.55  | <u>880,000</u>     | <u>880,000</u>     |
|                                 |  | <u>\$1,180,000</u> | <u>\$1,180,000</u> |

| <u>State Revolving Funds</u>            |                                     |                   |                                     |                   |
|---|-------------------------------------|-------------------|-------------------------------------|-------------------|
| <u>Sewer Revenue Capital Loan Notes</u> |                                     |                   |                                     |                   |
| <u>Year ending<br/>June 30,</u>         | <u>Issued<br/>February 13, 1995</u> |                   | <u>Issued<br/>December 12, 2003</u> |                   |
|   | <u>Interest<br/>Rate</u>            | <u>Amount</u>     | <u>Interest<br/>Rate</u>            | <u>Amount</u>     |
|   | 2009                                | 3.00%             | \$ 28,000                           | 3.00%             |
| 2010                                    | 3.00                                | 29,000            | 3.00                                | 22,000            |
| 2011                                    | 3.00                                | 30,000            | 3.00                                | 22,000            |
| 2012                                    | 3.00                                | 31,000            | 3.00                                | 23,000            |
| 2013                                    | 3.00                                | 33,000            | 3.00                                | 24,000            |
| 2014 and beyond                         | 3.00                                | <u>70,000</u>     | 3.00                                | <u>313,000</u>    |
|   |                                     | <u>\$ 221,000</u> |                                     | <u>\$ 425,000</u> |

See accompanying independent auditor's report.

| <u>State Revolving Funds</u> |                   |                     |
|------------------------------|-------------------|---------------------|
| <u>Water Revenue</u>         |                   |                     |
| <u>Capital Loan Notes</u>    |                   |                     |
| <u>Issued</u>                |                   |                     |
| <u>August 26, 2003</u>       |                   |                     |
| <u>Interest</u>              |                   |                     |
| <u>Rate</u>                  | <u>Amount</u>     | <u>Total</u>        |
| 3.00%                        | \$ 45,000         | \$ 94,000           |
| 3.00                         | 46,000            | 97,000              |
| 3.00                         | 47,000            | 99,000              |
| 3.00                         | 49,000            | 103,000             |
| 3.00                         | 50,000            | 107,000             |
| 3.00                         | 664,000           | 1,047,000           |
|                              | <u>\$ 901,000</u> | <u>\$ 1,547,000</u> |

CITY OF KALONA, IOWA  
 SCHEDULE OF RECEIPTS BY SOURCE AND  
 DISBURSEMENTS BY FUNCTION -  
 ALL GOVERNMENTAL FUNDS  
 For the Last Three Years

|  | <u>2008</u>         | <u>2007</u>         | <u>2006</u>         | <u>2005</u>         |
|--|---------------------|---------------------|---------------------|---------------------|
| Receipts:                              |                     |                     |                     |                     |
| Property tax                           | \$ 675,362          | \$ 668,988          | \$ 642,763          | \$ 565,919          |
| Tax increment financing<br>collections | 103,253             | 222,404             | 204,193             | 256,747             |
| Other city tax                         | 244,718             | 233,659             | 163,745             | 193,729             |
| Use of money and property              | 75,555              | 203,833             | 32,292              | 31,300              |
| Licenses and permits                   | 6,335               | 4,228               | 4,190               | 3,633               |
| Intergovernmental                      | 371,898             | 226,786             | 209,545             | 203,853             |
| Charges for service                    | 92,198              | 83,288              | 73,917              | 67,064              |
| Miscellaneous                          | <u>216,591</u>      | <u>64,000</u>       | <u>16,970</u>       | <u>40,876</u>       |
| Total                                  | <u>\$ 1,785,910</u> | <u>\$ 1,707,186</u> | <u>\$ 1,347,615</u> | <u>\$ 1,363,121</u> |
| Disbursements:                         |                     |                     |                     |                     |
| Operating:                             |                     |                     |                     |                     |
| Public safety                          | \$ 167,840          | \$ 142,978          | \$ 133,259          | \$ 130,999          |
| Public works                           | 395,722             | 481,566             | 144,316             | 397,995             |
| Culture and recreation                 | 502,739             | 370,763             | 331,379             | 291,540             |
| Community and economic<br>development  | 485,000             | 348,316             | 216,009             | 254,635             |
| General government                     | 399,324             | 186,825             | 169,350             | 111,373             |
| Debt service                           | 25,340              | 26,248              | 54,750              | --                  |
| Capital projects                       | <u>--</u>           | <u>--</u>           | <u>66,566</u>       | <u>1,246,982</u>    |
| Total                                  | <u>\$ 1,975,965</u> | <u>\$ 1,556,696</u> | <u>\$ 1,115,629</u> | <u>\$ 2,433,524</u> |

See accompanying independent auditor's report.

## COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369  
ATLANTIC, IOWA 50022-0369  
(712) 243-1800  
FAX (712) 243-1265  
CPA@GBKCO.COM

MARK D. KYHNN  
DAVID L. HANNASCH  
KENNETH P. TEGELS  
CHRISTOPHER J. NELSON  
DAVID A. GINTHER

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, business type activities, each major fund and the aggregate remaining fund information of City of Kalona, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 3, 2008. Our report expressed a qualified 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 Kalona's internal control over financial reporting in order to determine 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 Kalona's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Kalona's internal control over financial reporting.

Our consideration of 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 material weaknesses.

To the Honorable Mayor and  
Members of the City Council

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 Kalona'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 Kalona's financial statements that is more than inconsequential will not be prevented or detected by the City of Kalona'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 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 Kalona'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 the 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 item 08-I-A is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kalona'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's operations for the year ended June 30, 2008 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 Kalona'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 Kalona's responses and, accordingly, we express no opinion on them.

To the Honorable Mayor and  
Members of the City Council

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Kalona and other parties to whom the City of Kalona may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Gronwald, Ben, Kyhan & G.P.C.

Atlantic, Iowa  
October 3, 2008

CITY OF KALONA, IOWA

Schedule of Findings

Year ended June 30, 2008

PART I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

08-I-A Segregation of Duties: One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. However, because there are a limited number of people that have the primary responsibility for the accounting and financial duties, those aspects of internal accounting control which rely upon an adequate segregation of duties are missing in the City.

Recommendation: We recommend that the City review its control procedures to obtain the maximum internal control possible under the circumstances and the Council be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

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

Conclusion: Response accepted.

\* \* \*

CITY OF KALONA, IOWA

Schedule of Findings

Year ended June 30, 2008

PART II: Other Findings Related to Statutory Reporting

08-II-A Certified Budget: Disbursements during the year ended June 30, 2008 did not exceed the amounts budgeted.

08-II-B Questionable Disbursements: During the audit, we did not note any disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

08-II-C Travel Expense: No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

08-II-D Business Transactions: In accordance with Chapter 362.5(10) of the Code of Iowa, no transactions between the City and the City officials and City employees were noted that represented conflicts of interest.

08-II-E 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.

08-II-F Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not. However, minutes of the August, 2007 Council meeting were not published timely as required by Chapter 372.13(6) of the Code of Iowa.

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

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

Conclusion: Response accepted.

08-II-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

08-II-H Revenue Bonds and Notes: No instances of non-compliance with the revenue bond and note resolutions were noted.

CITY OF KALONA, IOWA

Schedule of Findings

Year ended June 30, 2008

PART II: Other Findings Related to Statutory Reporting - Continued

08-II-I General Obligation Loan Notes: The Water General Obligation Capital Loan Notes were paid directly from the Enterprise, Water Fund. A portion of the Library General Obligation Capital Loan Note was paid directly from the Special Revenue, Local Option Sales Tax Fund. Section 384.4 of the Code of Iowa states "Moneys pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the debt service fund."

Recommendation: The City should transfer from the Enterprise, Water Fund and Special Revenue, Local Option Sales Tax Fund to the Debt Service Fund for future funding contributions. Payments of the notes should then be disbursed from the Debt Service Fund.

Response: The City will take it under advisement.

Conclusion: The City should consider the implications of paying the notes out of the Enterprise, Water Fund and Special Revenue, Local Option Sales Tax Fund.

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

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

Response: We will include the same in the future.

Conclusion: Response accepted.

\* \* \*