

CITY OF KANAWHA

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

JUNE 30, 2008

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CITY OF KANAWHA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2008)		
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
(After January 2008)		
Terry Johnson	Mayor	Jan 2012
Brent Beukema	Council Member	Jan 2010
Nancy Litch	Council Member	Jan 2010
Judy Vander Ploeg	Council Member	Jan 2010
Michelle Wade	Council Member	Jan 2012
Ray Bassett	Council Member	Jan 2012
Sharon Grimm	City Clerk	July 2009
Earl Hill	Attorney	July 2009

## 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, 2008, 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, 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.

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2008 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, 2007 (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.

November 10, 2008

Renner & Birchem, P.C.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### 2008 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 63.4 %, or approximately \$266,900 from fiscal 2007 to fiscal 2008. Intergovernmental increased approximately \$222,400, property tax receipts increased approximately \$46,900 and local option tax decreased approximately \$2,113.
- Disbursements decreased 10.5 % or approximately \$115,000 in fiscal 2008 from fiscal 2007. Debt service disbursements decreased approximately \$246,000. Capital projects, general government and public safety disbursements increased approximately \$84,000, \$9,700 and \$20,700 respectively.
- The City's total cash basis net assets decreased 31.0%, or approximately \$176,100 from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities decreased approximately \$274,100 and the assets of the business type activities increased by approximately \$98,000.

### USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

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

### **Basis of Accounting**

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

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

### *Government-wide Financial Statement*

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

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

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

*Fund Financial Statements*

The City has two kinds of funds:

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

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

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

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City’s cash balance for governmental activities decreased from a year ago, from \$306,387 to \$32,255. The analysis that follows focuses on the changes in cash balances for governmental activities.

<b>Cash Basis Net Assets of Government Activities</b>		
	<b>Year Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
Receipts:		
Program receipts:		
Charges for service	\$ 310	2,903
Operating grants, contributions and restricted interest	350,451	89,801
Capital grants, contributions, and restricted interest		38,238
General receipts:		
Property tax	277,321	230,406
Local option tax	46,952	49,065
Unrestricted interest	4,992	3,008
Other general receipts	7,544	7,250
Total receipts	687,570	420,671

Disbursements:		
Public safety	136,592	115,850
Public works	118,378	105,846
Culture and recreation	53,996	54,464
Community and economic development	6,033	1,733
General government	93,405	83,732
Debt service	105,062	358,512
Capital projects	455,722	371,642
Total disbursements	<u>969,188</u>	<u>1,091,779</u>
Change in cash basis net assets before other financing sources	(281,618)	(671,108)
Other financing sources (uses)		
Sale of assets	15,129	389
Bond Issue		808,653
Short-term debt retired	(7,643)	
Total other financing sources (uses)	<u>7,486</u>	<u>809,042</u>
Change in cash basis net assets	(274,132)	137,934
Cash basis net assets beginning of year	<u>306,387</u>	<u>168,453</u>
Cash basis net assets end of year	<u>\$ 32,255</u>	<u>306,387</u>

The City's total receipts for governmental activities increased by 63.4%, or \$266,900. The significant increase in receipts was primarily the result of intergovernmental receipts. The total cost of all programs and services decreased by \$122,591, or 11.2%, with no new programs added this year.

The cost of all governmental activities this year was \$969,188 compared to \$1,091,779 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 \$618,427 because some of the cost was paid by those directly benefiting from the programs (\$310) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$350,451). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service totaled approximately \$350,761. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$277,321 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

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**Cash Basis Net Assets of Business Type Activities**

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	Year Ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 109,800	102,282
Sewer	62,620	63,495
General Receipts:		
Other general receipts		8,714
Total receipts	<u>172,420</u>	<u>174,491</u>
Disbursements:		
Water	33,355	54,100
Sewer	17,212	14,390
Debt Service	23,787	23,382
Total disbursements	<u>74,354</u>	<u>91,872</u>
Change in cash basis net assets before transfers	98,066	82,619
Cash basis net assets beginning of year	<u>260,710</u>	<u>178,091</u>
Cash basis net assets end of year	<u>\$ 358,776</u>	<u>260,710</u>

Total business type activities receipts for the fiscal year were \$172,420 compared to \$174,491 last year. Total disbursements, including debt service, for the fiscal year decreased by \$17,518 to a total of \$74,354. The cash balance increased by \$98,066 during the fiscal year compared to an increase of \$82,619 last year.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Kanawha completed the year, its governmental funds reported a combined fund balance of \$32,255, a decrease of \$274,132 over last year's total of \$306,387. 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 increased \$153,102 from the prior year to \$5,426.
- The Road Use Tax Fund cash balance increased by \$14,268 to \$67,302 during the fiscal year.
- Capital Projects Fund cash balance decreased from \$201,730 to (\$253,992), due to bridge replacement project and water main project.
- There was a decrease in the Debt Service Fund cash balance of \$17,960 for an ending balance of (\$6,363).
- The Employee Benefits Fund balance increased by \$5,939 to \$42,536 during the fiscal year.

- The Local Option Fund balance increased by \$26,241 to \$177,346 during the fiscal year.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$76,445 to \$246,726 during the fiscal year.
- The Sewer Fund cash balance increased by \$21,621 to \$105,501 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 \$55,464 receipts and \$374,931 disbursements to provide for additional disbursements for capital projects.

**DEBT ADMINISTRATION**

At June 30, 2008, the City had \$924,000 in general obligation and revenue bonds, compared to \$1,016,200 at the end of the prior year, as shown below.

<b>Outstanding Debt at Year-End</b>		
	June 30,	
	2008	2007
General obligation bonds	\$ 810,000	882,200
Revenue notes	114,000	134,000
Total	<u>\$924,000</u>	<u>1,016,200</u>

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 \$810,000 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 2009 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.

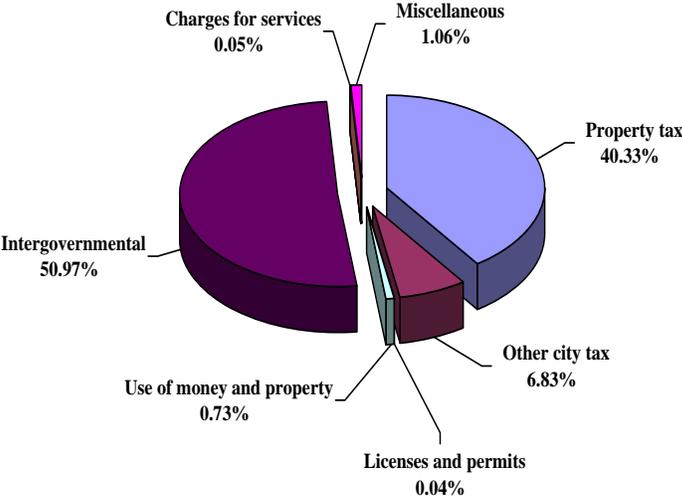
These among other economic factors were taken into account when adopting the budget for fiscal year 2009. Amounts available for appropriation in the operating budget are \$847,520, a decrease of 15.87% from the final 2008 budget. Budgeted disbursements are expected to decrease by approximately \$325,667.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$7,212 by the close of 2009. Actual amounts can and usually do differ from budgeted amounts.

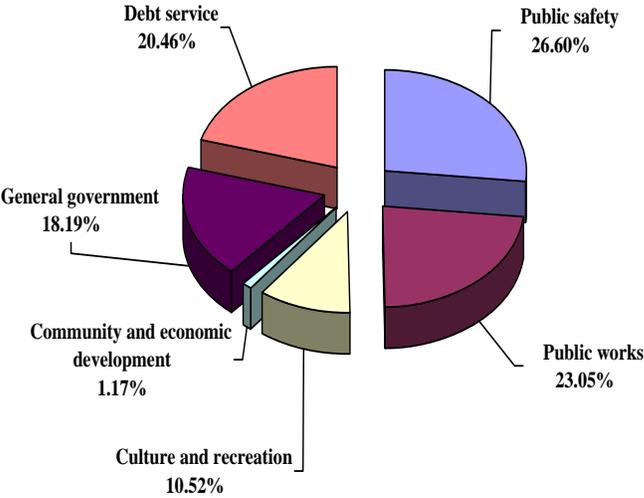
## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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.

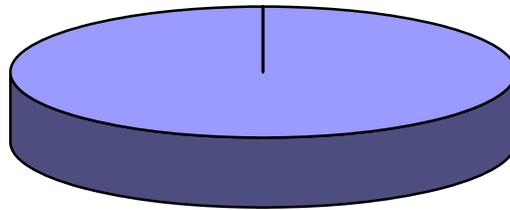
# Governmental Receipts by Source



# Governmental Disbursements by Function

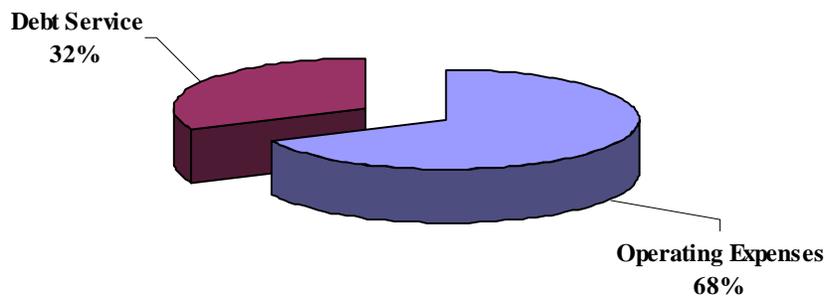


## Proprietary Fund Receipts by Source



Charges for  
service  
100.00%

## Proprietary Funds Disbursements by Category



Debt Service  
32%

Operating Expenses  
68%

## BASIC FINANCIAL STATEMENTS

## City of Kanawha

## Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2008

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions / Programs:</b>							
Governmental activities:							
Public safety	\$ 136,592		23,903		(112,689)		(112,689)
Public works	118,378		63,312		(55,066)		(55,066)
Culture and recreation	53,996	310	20,272		(33,414)		(33,414)
Community and economic development	6,033				(6,033)		(6,033)
General government	93,405				(93,405)		(93,405)
Debt service	105,062				(105,062)		(105,062)
Capital projects	455,722			242,964	(212,758)		(212,758)
Total governmental activities	969,188	310	107,487	242,964	(618,427)		(618,427)
Business type activities:							
Water	33,355	109,800				76,445	76,445
Sewer	40,999	62,620				21,621	21,621
Total business type activities	74,354	172,420				98,066	98,066
Total	\$ 1,043,542	172,730	107,487	242,964	(618,427)	98,066	(520,361)
<b>General Receipts:</b>							
Property tax levied for:							
General purposes					\$ 145,513		145,513
Employee benefits and insurance					44,706		44,706
Debt service					87,102		87,102
Local option sales tax					46,952		46,952
Unrestricted interest on investments					4,992		4,992
Miscellaneous					7,544		7,544
Sale of assets					15,129		15,129
Bond and note proceeds, net					(7,643)		(7,643)
Total general receipts and transfers					344,295		344,295
Change in cash basis net assets					(274,132)	98,066	(176,066)
Cash basis net assets beginning of year					306,387	260,710	567,097
Cash basis net assets end of year					\$ 32,255	358,776	391,031
<b>Cash Basis Net Assets</b>							
Restricted:							
Streets					\$ 67,302		67,302
Debt service					(6,363)	6,549	186
Other purposes					(211,456)		(211,456)
Unrestricted					182,772	352,227	534,999
Total cash basis net assets					\$ 32,255	358,776	391,031

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, 2008

	Special Revenue						Total
	General	Road Use Tax	Local Option	Employee Benefits	Debt Service	Capital Projects	
<b>Receipts:</b>							
Property tax	\$ 145,513			44,706	87,102		277,321
Other city tax			46,952				46,952
Licenses and permits	260						260
Use of money and property	4,992						4,992
Intergovernmental	287,139	63,312					350,451
Charges for services	310						310
Miscellaneous	7,284						7,284
<b>Total receipts</b>	<b>445,498</b>	<b>63,312</b>	<b>46,952</b>	<b>44,706</b>	<b>87,102</b>		<b>687,570</b>
<b>Disbursements:</b>							
<b>Operating:</b>							
Public safety	119,975			16,617			136,592
Public works	49,484	49,044	9,068	10,782			118,378
Culture and recreation	52,195			1,801			53,996
Community and economic development	2,033		4,000				6,033
General government	83,838			9,567			93,405
Debt service					105,062		105,062
Capital projects						455,722	455,722
<b>Total disbursements</b>	<b>307,525</b>	<b>49,044</b>	<b>13,068</b>	<b>38,767</b>	<b>105,062</b>	<b>455,722</b>	<b>969,188</b>
Excess (deficiency) of receipts over (under) disbursements	137,973	14,268	33,884	5,939	(17,960)	(455,722)	(281,618)
<b>Other financing sources (uses):</b>							
Sale of capital assets	15,129						15,129
Short-term debt retired			(7,643)				(7,643)
<b>Total other financing sources (uses)</b>	<b>15,129</b>		<b>(7,643)</b>				<b>7,486</b>
Net change in cash balances	153,102	14,268	26,241	5,939	(17,960)	(455,722)	(274,132)
Cash balances beginning of year	(147,676)	53,034	151,105	36,597	11,597	201,730	306,387
Cash balances end of year	\$ 5,426	67,302	177,346	42,536	(6,363)	(253,992)	32,255
<b>Cash Basis Fund Balances</b>							
<b>Reserved:</b>							
Debt service					(6,363)		(6,363)
<b>Unreserved:</b>							
General fund	\$ 5,426						5,426
Special revenue fund		67,302	177,346	42,536			287,184
Capital projects fund						(253,992)	(253,992)
<b>Total cash basis fund balances</b>	<b>\$ 5,426</b>	<b>67,302</b>	<b>177,346</b>	<b>42,536</b>	<b>(6,363)</b>	<b>(253,992)</b>	<b>32,255</b>

See notes to financial statements.

## City of Kanawha

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

As of and for the year ended June 30, 2008

	Proprietary Funds				Total
	Water	Sewer Rental	Sewer Revenue Reserve	Sewer Improvement	
Operating receipts:					
Charges for service	\$ 109,800	62,620			172,420
Total operating receipts	109,800	62,620			172,420
Operating disbursements:					
Business type activities	33,355	17,212			50,567
Total operating disbursements	33,355	17,212			50,567
Excess of operating receipts over operating disbursements	76,445	45,408			121,853
Non-operating (disbursements):					
Debt service		(23,787)			(23,787)
Excess of receipts over disbursements	76,445	21,621			98,066
Cash balance beginning of year	170,281	83,880	2,049	4,500	260,710
Cash balances end of year	\$ 246,726	105,501	2,049	4,500	358,776
<b>Cash Basis Fund Balances</b>					
Reserved for debt service			2,049	4,500	6,549
Unreserved	\$ 246,726	105,501			352,227
Total cash basis fund balances	\$ 246,726	105,501	2,049	4,500	358,776

See notes to financial statements.

# CITY OF KANAWHA

## Notes to Financial Statements

June 30, 2008

### (1) Summary of Significant Accounting Policies

The City of Kanawha is a political subdivision of the State of Iowa located in Hancock County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services. The City also provides water and sewer utilities for its citizens.

#### A. Reporting Entity

For financial reporting purposes, City of Kanawha has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City of Kanawha had no component units which meet the Governmental Accounting Standards Board criteria.

#### Jointly Governed Organizations

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

#### B. Basis of Presentation

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

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

# CITY OF KANAWHA

## Notes to Financial Statements (continued)

June 30, 2008

*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 not meeting 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. The City has elected to report all governmental funds as major 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 not paid from other funds.

Special Revenue:

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

The Local Option Fund is used to account for local option tax receipts and disbursements.

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, 2008

The Sewer Revenue Reserve and Sewer Improvement Funds are included as discretionary major funds as required by the City's debt agreements.

### 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, 2008, disbursements exceeded the amounts budgeted in the public safety, public works, community and economic development, general government and debit service functions.

### (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.

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, 2008

**(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
2009	\$ 21,000	5,202	75,000	33,954	96,000	39,156
2010	22,000	4,244	85,000	30,708	107,000	34,952
2011	23,000	3,240	90,000	27,060	113,000	30,300
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>\$114,000</u>	<u>16,016</u>	<u>810,000</u>	<u>213,297</u>	<u>924,000</u>	<u>229,313</u>

The revenue note agreement includes the following provisions:

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

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

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2008

**(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 3.90% of their annual covered salary and the City is required to contribute 6.05% 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, 2008, 2007 and 2006 were \$9,927, \$8,875, and \$13,991 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, 2008, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2008</u>
Vacation	\$ <u>2,124</u>

This liability has been computed based on rates of pay as of June 30, 2008.

**(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, 2008.

<u>Year Ending</u>	<u>Police Vehicle</u>
2009	\$ 4,764
2010	4,764
2011	<u>4,765</u>
Total	14,293
Less amount representing interest	<u>4,204</u>
Present value of minimum net lease payments	\$ <u>10,089</u>

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2008

**(7) Related Party Transactions**

The City had business transaction between the City and City officials totaling \$4,243 during the year ended June 30, 2008.

**(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.

**(9) Deficit Balances**

The Debt Service Fund and Capital Project Fund had deficit balances of \$6,363 and \$253,992 respectively, at June 30, 2008. The deficit balances were the result of costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of funds.

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, 2008

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Funds		Original	Final	Total
	Actual	Actual				Variance
<b>Receipts:</b>						
Property tax	\$ 277,321		277,321	267,866	267,866	9,455
Other city tax	46,952		46,952	57,130	57,130	(10,178)
Licenses and permits	260		260			260
Use of money and property	4,992		4,992	2,500	2,500	2,492
Intergovernmental	350,451		350,451	290,275	345,739	4,712
Charges for services	310	172,420	172,730	187,774	187,774	(15,044)
Miscellaneous	7,284		7,284	26,550	26,550	(19,266)
<b>Total receipts</b>	<b>687,570</b>	<b>172,420</b>	<b>859,990</b>	<b>832,095</b>	<b>887,559</b>	<b>(27,569)</b>
<b>Disbursements:</b>						
Public safety	136,592		136,592	117,686	117,686	(18,906)
Public works	118,378		118,378	223,382	100,882	(17,496)
Health and social services				4,000	4,000	4,000
Culture and recreation	53,996		53,996	69,592	69,592	15,596
Community and economic development	6,033		6,033	3,000	3,000	(3,033)
General government	93,405		93,405	87,056	87,056	(6,349)
Debt service	105,062		105,062	55,612	86,197	(18,865)
Capital projects	455,722		455,722		466,846	11,124
Business type activities		74,354	74,354	91,899	91,899	17,545
<b>Total disbursements</b>	<b>969,188</b>	<b>74,354</b>	<b>1,043,542</b>	<b>652,227</b>	<b>1,027,158</b>	<b>(16,384)</b>
Excess (deficiency) of receipts over (under) disbursements	(281,618)	98,066	(183,552)	179,868	(139,599)	(43,953)
Other financing sources, net	7,486		7,486		319,467	(311,981)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(274,132)	98,066	(176,066)	179,868	179,868	(355,934)
Balances beginning of year	306,387	260,710	567,097	231,717	231,717	335,380
Cash balances end of year	\$ 32,255	358,776	391,031	411,585	411,585	(20,554)

See accompanying independent auditor's report.

City of Kanawha

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

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 \$374,931. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the public safety, public works, community and economic development, general government and debt service functions.

OTHER SUPPLEMENTARY INFORMATION

## City of Kanawha

## Schedule of Indebtedness

Year ended June 30, 2008

<b>Obligation</b>	<b>Date of Issue</b>	<b>Rate of Interest</b>	<b>Amount Originally Issued</b>	<b>Balance Beginning of Year</b>	<b>Redeemed During Year</b>	<b>Balance End of Year</b>	<b>Interest Paid</b>
General obligation bonds:							
Fire department	5/1/1995	5.50 - 5.65%	\$ 150,000	60,000	15,000	45,000	3,390
General corporate purpose	5/1/2007	4.00 - 4.35	815,000	815,000	50,000	765,000	36,197
Short-term borrowing	5/24/2007	5.95	7,200	7,200	7,200		1,073
Total				882,200	72,200	810,000	40,660
Revenue bond:							
Sewer lagoon	12/30/1992	4.62%	\$ 242,000	103,000	15,000	88,000	2,917
Sewer	12/30/1992	4.37	73,000	31,000	5,000	26,000	871
Total				134,000	20,000	114,000	3,788

See accompanying independent auditor's report.

## CITY OF KANAWHA

## Bond and Note Maturities

June 30, 2008

GENERAL OBLIGATION NOTES					
Year Ending June 30,	Fire Department Issued May 1, 1995		General Corporate Purpose Issued October 1, 2000		Total
	Interest Rates	Amount	Interest Rates	Amount	
2009	5.65%	\$ 15,000	4.000	60,000	75,000
2010	5.65	15,000	4.000	70,000	85,000
2011	5.65	15,000	4.000	75,000	90,000
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
<b>Total</b>		<b>\$ 45,000</b>		<b>765,000</b>	<b>810,000</b>

REVENUE NOTES					
Year Ending June 30,	Sewer Lagoon Issued December 30, 1992		Sewer Issued December 30, 1992		Total
	Interest Rates	Amount	Interest Rates	Amount	
2009	4.62%	\$ 16,000	4.37	5,000	21,000
2010	4.62	17,000	4.37	5,000	22,000
2011	4.62	18,000	4.37	5,000	23,000
2012	4.62	18,000	4.37	5,000	23,000
2013	4.62	19,000	4.37	6,000	25,000
		<b>\$ 88,000</b>		<b>26,000</b>	<b>114,000</b>

See accompanying independent auditor's report.

## CITY OF KANAWHA

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

For the Last Five Years

	2008	2007	2006	2005	2004
<b>Receipts:</b>					
Property tax	\$ 277,321	230,406	222,467	220,944	204,334
Other city tax	46,952	49,065	51,972	44,957	46,235
Licenses and permits	260	265	678	1,015	570
Use of money and property	4,992	3,008	4,266	2,961	2,461
Intergovernmental	350,451	64,078	125,571	74,199	110,985
Charges for service	310	2,903	290	2,467	16,207
Miscellaneous	7,284	70,946	55,921	106,000	67,235
<b>Total</b>	<b>\$ 687,570</b>	<b>420,671</b>	<b>461,165</b>	<b>452,543</b>	<b>448,027</b>
<b>Disbursements:</b>					
<b>Operating:</b>					
Public safety	\$ 136,592	115,850	181,550	110,432	163,609
Public works	118,378	105,846	134,784	145,840	109,102
Culture and recreation	53,996	54,464	55,068	61,138	59,911
Community and economic development	6,033	1,733	2,860		2,805
General government	93,405	83,732	79,402	69,823	56,736
Debt service	105,062	358,512	58,460	76,075	68,035
Capital projects	455,722	371,642	30,096	10,000	
<b>Total</b>	<b>\$ 969,188</b>	<b>1,091,779</b>	<b>542,220</b>	<b>473,308</b>	<b>460,198</b>

See accompanying independent auditor's report.

## Sewer Revenue Capital Note Information

June 30, 2008

## Rates and Customer Usage:

At June 30, 2008 the City had approximately 350 customers using the wastewater treatment system. At June 30, 2008 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	\$ 633,442	\$ 250	90%
Municipal building contents	76,491	250	90
Old city hall	64,369	250	90
Old city hall contents	7,923	250	90
Water tower	367,500	250	90
Water building and equipment	1,463	250	90
Sewage lift station equipment	1,408	250	90
Sewage lift station	38,460	250	90
Fences and lighting	117,978	250	90
Shelter house/concession stand	27,046	250	90
Shelter house-picnic	24,041	250	90
Shelter house contents	6,447	250	90
Playground equipment	28,139	250	90
Pole Shelter	6,611	250	90
Water treatment facility	515,074	250	90
Water treatment building contents	11,817	250	90
Fire department	391,650	250	90
Fire department contents	28,475	250	90
Mobile equipment	actual cash value	250	100
Liability-each occurrence	1,000,000		
Vehicles	actual cash value	250	

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Kanawha, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 10, 2008. 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, including 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-08, and I-B-08 and I-C-08 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, 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 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.

November 10, 2008

Renner & Birchem, P.C.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2008

**Part I: Findings Related to the Financial Statements:**

**Significant Deficiencies:**

I-A-08 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-08 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits. A City employee is included on the June 30, 2008 delinquent list.

Recommendation – 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. No City employees should be allowed to continue delinquent.

Response – These procedures will be implemented as recommended.

Conclusion – Response accepted.

I-C-08 Disbursements and Payroll – In reviewing the transactions it was noted that the invoice total for the shop furnace from Hennigar's Air Care was \$100 less than was actually paid.

Compensation time for Mark Hennigar, policeman, in the amount of \$7,799.88 was paid without council approval in the minutes. The City of Kanawha employee handbook states that compensatory time can only be accumulated to 120 hours with 60 paid in full by end of December and 60 paid in full by end of June. Compensatory time may not be carried into a new fiscal year. It also states that an employee may not carry more than 5 vacation days over into the next year and that unused vacation leave is paid at termination only. This payment is for approximately 418 hours, 272 hours of compensation time and 146 hours of vacation time.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2008

**Part I: Findings Related to the Financial Statements: (continued)**

Social security and medicare taxes were not properly withheld on one payroll check with the City paying both the employee and City share of taxes.

There appears to be no approval of hours and no time cards for all city employees.

IPER's wages for the 4<sup>th</sup> quarter 2007 were understated by \$14,312.43. It appears that the data was incorrectly imputed by personnel at IPER's resulting in an under payment of IPER's.

Recommendation – To strengthen the control over the accountability of disbursements, the City should properly include and the council should approve all disbursements including extraordinary payroll in the minutes and the City policies must be followed. All employees, including salaried employees, should prepare time sheets to properly track compensation time. All payroll returns should be reviewed carefully and if errors found corrected. The employee handbook should be reviewed and updated.

Response – We will attempt to correct the errors and be more careful and diligent in the future.

Conclusion – Response accepted.

**Instances of Non – Compliance:**

No matters were reported

City of Kanawha

Schedule of Findings

Year Ended June 30, 2008

**Part II: Other Findings Related to Required Statutory Reporting:**

II-A-08 Certified Budget – Disbursements during the year ended June 30, 2008, exceeded amounts budgeted in the public safety, public works, community and economic development, general government and debt service 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-08 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-C-08 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mark Hennigar, Police Hennigar's Air Care	Shop Furnace	\$ 4,243

The transaction was not entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa. In addition the invoice did not add to the total of \$4,243 but was \$100 less than what was actually paid.

Recommendation – A competitive bidding process should be entered into whenever possible especially when total is over \$2,500.

Response – Due to lack of local business providing this service a competitive bidding process was not entered into. Also Hennigar Air Care billing was to be at cost.

Conclusion - Response accepted.

II-D-08 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.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2008

**Part II: Other Findings Related to Required Statutory Reporting: (continued)**

- II-E-08 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.

The minutes and the published minutes did not include total disbursements from each fund, a list of all claims allowed (including the reason for the claim), and a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The mayor and clerk should sign minutes prior to posting them in the minute book and the required proper information must be included.

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

Conclusion – Response accepted.

- II-F-08 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-08 Revenue Notes – The revenue note provisions continue to be not complied with during the year ended June 30, 2008. 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.

- II-H-08 Financial Condition – The Debt Service Fund and Capital Projects Fund had deficit balances at June 30, 2008 of \$6,363 and \$253,992, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial position. The City Council should be informed of current fund balances every month.

Response – The deficit was due to costs incurred prior to receipt of funds and will be eliminated as soon as possible.

Conclusion – Response accepted.