

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

JUNE 30, 2009

CITY OF KALONA, IOWA  
TABLE OF CONTENTS

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS:	
	<u>Exhibit</u>
Government-wide Financial Statement: Statement of Activities and Net Assets - Cash Basis	A 5
Governmental Funds Financial Statement: Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 7
Proprietary Funds Financial Statement: Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 9
Notes to Financial Statements	10
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	17
Notes to Required Supplementary Information - Budgetary Reporting	18
OTHER SUPPLEMENTARY INFORMATION:	
	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1 19
Schedule of Indebtedness	2 20
Bond and Note Maturities	3 21
Schedule of Receipts by Source and Disbursements by Function - All Government Funds	4 22
COMMENTS AND RECOMMENDATIONS:	
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	23
Schedule of Findings	26

CITY OF KALONA, IOWA  
OFFICIALS  
June 30, 2009

<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 (Resigned March, 2009)	Council Member	
David Kempf (Appointed April, 2009)	Council Member	December, 2009
Doug Morgan (Resigned September, 2009)	City Administrator	
Ryan Schlabaugh (Hired September, 2009)	City Administrator	Indefinite
Karen Christner	City Clerk	Appointed

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

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

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## 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, 2009, 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, 2009, 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

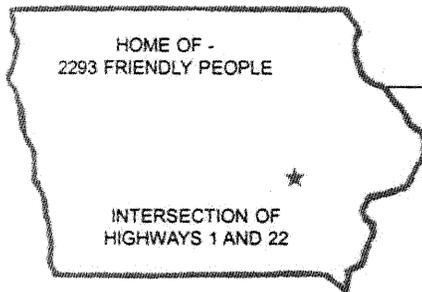
In accordance with Government Auditing Standards, we have also issued our report dated December 23, 2009 on our consideration of the City of Kalona's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 three years ended June 30, 2008 (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.

Gronwald, Ben, Kohn & W. P. C.

Atlantic, Iowa  
December 23, 2009



# CITY OF KALONA

511 C Avenue • P.O. Box 1213  
KALONA, IOWA 52247-1213

AREA CODE 319-656-2310

CITY COUNCIL

KEN HERINGTON  
STEVE LAFAURIE  
CLAUDINE MILLER  
DAVID BENTLEY  
DAVID KEMPF

City of Kalona

## Management's Discussion & Analysis

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, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

### 2009 FINANCIAL HIGHLIGHTS

- Revenues of the City increased approximately 27% from fiscal year 2008 to 2009 because of Sewer Fund debt proceeds.
- Disbursements of the City decreased approximately 5% from fiscal year 2008 to 2009 due to fewer projects being completed in 2009.
- The City's total cash basis net assets increased approximately 16% or \$477,270 due mainly to completion of 2 projects during this time. Of this amount, the assets of the governmental activities increased approximately \$459,286 and the assets of the business type activities increased by approximately \$17,984.

### 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 increased from \$2,308,260 to \$2,767,546. 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,	
	2009	2008
Receipts and transfers:		
Program receipts:		
Charges for services	\$ 94,976	\$ 100,004
Operating grants	353,212	371,898
General receipts:		
Property tax	675,446	650,770
Debt service property tax	22,610	24,592
Local option sales tax	197,006	228,000
TIF revenues	215,652	103,253
Other city tax	17,169	16,718
Grants and contributions not restricted to a specific purpose	141,306	179,702
Unrestricted interest	40,539	74,555
Miscellaneous	45,400	36,418
Transfer in	10,992	76,342
Total receipts and transfers	<u>1,814,308</u>	<u>1,862,252</u>
Disbursements and transfers:		
Public safety	156,819	167,840
Public works	185,787	395,722
Culture and recreation	457,115	502,739
Community and economic development	364,541	485,000
General government	144,508	399,324
Debt service	24,268	25,340
Capital projects	10,992	--
Transfers out	10,992	76,342
Total disbursements and transfers	<u>1,355,022</u>	<u>2,052,307</u>
Increase (decrease) in cash basis net assets	459,286	( 190,055)
Cash basis net assets beginning of year	<u>2,308,260</u>	<u>2,498,315</u>
Cash basis net assets end of year	<u>\$ 2,767,546</u>	<u>\$ 2,308,260</u>

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

	Year ended June 30,	
	<u>2009</u>	<u>2008</u>
Receipts:		
Program receipts:		
Charges for services		
Water	\$ 334,763	\$ 326,274
Sewer	259,067	197,821
Garbage	52,711	47,044
General receipts:		
Other general receipts	19,265	32,912
Debt proceeds	642,362	--
Transfers in	--	--
Total receipts	<u>1,308,168</u>	<u>604,051</u>
Disbursements and transfers:		
Water	290,727	383,629
Sewer	952,025	311,355
Garbage	47,432	45,705
Transfers out	--	--
Total disbursements and transfers	<u>1,290,184</u>	<u>740,689</u>
Increase (decrease) in cash basis net assets	17,984	( 136,638)
Cash basis net assets beginning of year	<u>744,342</u>	<u>880,980</u>
Cash basis net assets end of year	<u>\$ 762,326</u>	<u>\$ 744,342</u>

### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Kalona, Iowa, completed the year, its funds reported a combined fund balance of \$3,529,872, which is a increase of \$477,270. Major reasons for changes in balances from fiscal year 2008 are:

- The General Fund balance showed an increase due to funds received from the Iowa Department of Economic Development Housing Project, Department of Natural Resources Playground Grant, and Washington County Riverboat Foundation.
- The Road Use Tax Fund balance increased due to decreased disbursements on street projects.
- The Tax Increment Financing Fund balance increased by \$94,035 in fiscal year 2009. Revenue increase was due to the start of development agreements formed with the City.
- The Local Option Sales Tax Fund balance decreased by \$32,077 from fiscal year 2008. Revenue decrease was due to the state of the economy and sales activity. Expenditures decreased with the purchase of fewer equipment and infrastructure items by different departments throughout the City.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Utility Fund balance increased by \$56,454 from fiscal year 2008 due to the reduction of debt payments in 2009.

The Sewer Utility Fund balance decreased by \$43,749 from fiscal year 2008 due to disbursements for a Lift Station Project in 2009.

## BUDGETARY HIGHLIGHTS

The City Amended its budget on May 18, 2009 resulting in an increase of receipts of approximately \$1,428,453 and disbursements of approximately \$1,970,799. Increase in revenues is due to the grants received and loan funds on Housing Project, Campground Shower Project, Playground Resurfacing Project, and Sewer Lift Station Project. Increase in expenses is due to replacement of equipment at Water Plant, Sewer Lift Station Project, Playground Resurfacing Project, Campground Shower Project, Housing Project, Pool Equipment Replacement, Road Construction Project, and Repairs of siding and roof at Community Center.

## DEBT ADMINISTRATION

At June 30, 2009, the City had approximately \$3,220,362 in bonds and other long-term debt, compared to approximately \$2,727,000 last year, as shown below.

Outstanding Debt at Year-End

	Year ended June 30,	
	2009	2008
General Obligation and State Revolving Fund Debt		
1995 Sewer Project (State Revolving Fund)	\$ 193,000	\$ 221,000
2003 Water Project (State Revolving Fund)	856,000	901,000
2003 Sewer Project (State Revolving Fund)	404,000	425,000
2004 Library Project	1,125,000	1,180,000
2008 Sewer Project (State Revolving Fund)	642,362	--
Total	<u>\$ 3,220,362</u>	<u>\$ 2,727,000</u>

Debt increased due to additional State Revolving Fund debt in 2009.

## 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 2010 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 Ryan Schlabaugh, 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, 2009

	<u>Disbursements</u>	<u>Program Receipts</u>	
		<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>
Functions/Programs:			
Governmental activities:			
Public safety	\$ 156,819	\$ 1,047	\$ --
Public works	185,787	16,985	190,250
Culture and recreation	457,115	75,876	114,488
Community and economic development	364,541	--	48,474
General government	144,508	1,068	--
Debt service	24,268	--	--
Capital projects	10,992	--	--
Total governmental activities	<u>1,344,030</u>	<u>94,976</u>	<u>353,212</u>
Business type activities:			
Water	290,727	334,763	--
Sewer	952,025	259,067	--
Garbage	47,432	52,711	--
Total business type activities	<u>1,290,184</u>	<u>646,541</u>	<u>--</u>
<b>Total</b>	<u><b>\$ 2,634,214</b></u>	<u><b>\$ 741,517</b></u>	<u><b>\$ 353,212</b></u>

General Receipts:

- Property tax levied for:
  - General purposes
  - Debt service
- Tax increment financing
- Local option sales tax
- Other city tax
- Grants and contributions not restricted to a specific purpose
- Unrestricted interest on investments
- Debt proceeds
- Miscellaneous

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

(continued next page)

Program Receipts Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
\$ --	\$( 155,772)	\$ --	\$( 155,772)
--	21,448	--	21,448
--	( 266,751)	--	( 266,751)
--	( 316,067)	--	( 316,067)
--	( 143,440)	--	( 143,440)
--	( 24,268)	--	( 24,268)
--	( 10,992)	--	( 10,992)
--	( 895,842)	--	( 895,842)
--	--	44,036	44,036
--	--	( 692,958)	( 692,958)
--	--	5,279	5,279
--	--	( 643,643)	( 643,643)
<u>\$ --</u>	<u>( 895,842)</u>	<u>( 643,643)</u>	<u>( 1,539,485)</u>
	675,446	--	675,446
	22,610	--	22,610
	215,652	--	215,652
	197,006	--	197,006
	17,169	--	17,169
	141,306	--	141,306
	40,539	7,872	48,411
	--	642,362	642,362
	45,400	11,393	56,793
	<u>1,355,128</u>	<u>661,627</u>	<u>2,016,755</u>
	459,286	17,984	477,270
	<u>2,308,260</u>	<u>744,342</u>	<u>3,052,602</u>
	<u>\$ 2,767,546</u>	<u>\$ 762,326</u>	<u>\$ 3,529,872</u>

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

As of and for the year ended June 30, 2009

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts</u> Operating Grants, Contributions, and Restricted 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> Capital Grants, Contributions, and Restricted Interest	<u>Net (Disbursements) Receipts and            Changes in Cash Basis Net Assets</u>		
	<u>Governmental            Activities</u>	<u>Business Type            Activities</u>	<u>Total</u>
	\$ 352,760	\$ --	\$ 352,760
	275,279	--	275,279
	142,211	--	142,211
	323,093	--	323,093
	<u>1,674,203</u>	<u>762,326</u>	<u>2,436,529</u>
	<u>\$ 2,767,546</u>	<u>\$ 762,326</u>	<u>\$ 3,529,872</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, 2009

	General	Special Revenue Road Use Tax
Receipts:		
Property tax	\$ 604,550	\$ --
Tax increment financing collections	--	--
Other city tax	13,657	--
Use of money and property	48,448	--
Licenses and permits	18,053	--
Intergovernmental	162,962	190,250
Charges for service	86,906	--
Miscellaneous	167,519	--
Total receipts	1,102,095	190,250
Disbursements:		
Operating:		
Public safety	156,819	--
Public works	96,951	77,285
Culture and recreation	417,174	--
Community and economic development	13,841	--
General government	131,716	--
Debt service	--	--
Capital projects	--	--
Total disbursements	816,501	77,285
Excess (deficiency) of receipts over (under) disbursements	285,594	112,965
Other financing sources (uses):		
Operating transfers in	--	--
Operating transfers out	( 10,992)	--
Total other financing sources (uses)	( 10,992)	--
Net change in cash balances	274,602	112,965
Cash balances beginning of year	1,399,601	239,795
Cash balances end of year	\$ 1,674,203	\$ 352,760

(continued next page)

<u>Special Revenue</u>			
<u>Urban Renewal Tax Increment</u>	<u>Local Option Sales Tax</u>	<u>Nonmajor</u>	<u>Total</u>
\$ --	\$ --	\$ 93,506	\$ 698,056
215,652	--	--	215,652
--	197,006	3,512	214,175
--	--	1,295	49,743
--	--	--	18,053
--	--	--	353,212
--	--	--	86,906
--	--	--	167,519
<u>215,652</u>	<u>197,006</u>	<u>98,313</u>	<u>1,803,316</u>
--	--	--	156,819
--	--	11,551	185,787
--	--	39,941	457,115
121,617	229,083	--	364,541
--	--	12,792	144,508
--	--	24,268	24,268
--	--	10,992	10,992
<u>121,617</u>	<u>229,083</u>	<u>99,544</u>	<u>1,344,030</u>
94,035	( 32,077)	( 1,231)	459,286
--	--	10,992	10,992
--	--	--	( 10,992)
--	--	10,992	--
94,035	( 32,077)	9,761	459,286
<u>181,244</u>	<u>257,415</u>	<u>230,205</u>	<u>2,308,260</u>
<u>\$ 275,279</u>	<u>\$ 225,338</u>	<u>\$ 239,966</u>	<u>\$ 2,767,546</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, 2009

	General	Special Revenue Road Use Tax
Cash Basis Net Assets		
Reserved:		
Debt service	\$ --	\$ --
Unreserved:		
General fund	1,674,203	--
Special revenue funds	--	352,760
Total cash basis net assets	\$ 1,674,203	\$ 352,760

The accompanying notes are an integral part of these statements.

<u>Special Revenue</u>			
<u>Urban Renewal Tax Increment</u>	<u>Local Option Sales Tax</u>	<u>Nonmajor</u>	<u>Total</u>
\$ --	\$ --	\$ 142,211	\$ 142,211
--	--	--	1,674,203
<u>275,279</u>	<u>225,338</u>	<u>97,755</u>	<u>951,132</u>
<u>\$ 275,279</u>	<u>\$ 225,338</u>	<u>\$ 239,966</u>	<u>\$ 2,767,546</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, 2009

	Enterprise Funds			Total
	Water	Sewer	Garbage	
Operating Receipts:				
License and permits	\$ 4,660	\$ 4,492	\$ --	\$ 9,152
Charges for services	<u>330,103</u>	<u>254,575</u>	<u>52,711</u>	<u>637,389</u>
Total operating receipts	334,763	259,067	52,711	646,541
Operating Disbursements:				
Business type activities	<u>216,444</u>	<u>163,639</u>	<u>47,432</u>	<u>427,515</u>
Total operating disbursements	<u>216,444</u>	<u>163,639</u>	<u>47,432</u>	<u>427,515</u>
Excess of operating receipts over operating disbursements	118,319	95,428	5,279	219,026
Non-operating receipts (disbursements):				
Interest on investments	3,737	4,135	--	7,872
Miscellaneous	8,681	2,712	--	11,393
Debt proceeds	--	642,362	--	642,362
Debt service	( 74,283)	( 75,504)	--	( 149,787)
Capital projects	<u>--</u>	<u>( 712,882)</u>	<u>--</u>	<u>( 712,882)</u>
Total non-operating receipts (disbursements)	<u>( 61,865)</u>	<u>( 139,177)</u>	<u>--</u>	<u>( 201,042)</u>
Excess (deficiency) of receipts over (under) disbursements and net change in cash balances	56,454	( 43,749)	5,279	17,984
Cash balances beginning of year	<u>326,155</u>	<u>370,761</u>	<u>47,426</u>	<u>744,342</u>
Cash balances end of year	<u>\$ 382,609</u>	<u>\$ 327,012</u>	<u>\$ 52,705</u>	<u>\$ 762,326</u>
Cash Basis Fund Balances				
Unreserved	<u>\$ 382,609</u>	<u>\$ 327,012</u>	<u>\$ 52,705</u>	<u>\$ 762,326</u>
Total cash basis fund balances	<u>\$ 382,609</u>	<u>\$ 327,012</u>	<u>\$ 52,705</u>	<u>\$ 762,326</u>

The accompanying notes are an integral part of these statements.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

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, 2009

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 Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

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, 2009

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, 2009 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, 2009

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 June 30,	General Obligation Capital Loan Notes		Revenue Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 60,000	\$ 43,030	\$ 121,000	\$ 75,910	\$ 181,000	\$ 118,940
2011	60,000	41,500	124,000	75,960	184,000	117,460
2012	60,000	39,850	129,000	72,240	189,000	112,090
2013	65,000	38,050	134,000	68,370	199,000	106,420
2014	65,000	35,938	138,000	64,350	203,000	100,288
2015-2019	360,000	142,888	603,000	263,760	963,000	406,648
2020-2024	455,000	62,158	662,000	172,140	1,117,000	234,298
2025-2029	--	--	209,000	99,210	209,000	99,210
2030-2034	--	--	245,000	65,730	245,000	65,730
2035-2039	--	--	288,000	26,430	288,000	26,430
	<u>\$1,125,000</u>	<u>\$ 403,414</u>	<u>\$2,653,000</u>	<u>\$ 984,100</u>	<u>\$3,778,000</u>	<u>\$1,387,514</u>

The Code of Iowa requires that principal and interest on general obligation notes be paid from the Debt Service Fund. However, during the year, \$30,732 of note principal and \$44,268 of interest was paid out of the Special Revenue, Local Option Sales Tax Fund.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

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 61 percent of the net receipts. The total principal and interest remaining to be paid on the notes is \$1,075,720. For the current year, principal and interest paid and total customer net receipts were \$72,030 and \$118,319, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,192,000 in sewer revenue notes issued in February, 1995, December, 2003 and November 26, 2008. As of June 30, 2009, \$642,362 of the \$1,200,000 Sewer Revenue Notes issued on November 26, 2008 had been drawn. As of the date of this report, all of the debt funds have been drawn. 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 2039. Annual principal and interest payments on the notes are expected to require less than 75 percent of the net receipts. The total principal and interest remaining to be paid on the notes is \$2,561,380. For the current year, principal and interest paid and total customer net receipts were \$71,331 and \$95,428, 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, 2009

NOTE 4 - PENSION AND RETIREMENT BENEFITS - Continued

Most regular plan members are required to contribute 4.10% (4.30% effective July 1, 2009) of their annual covered salary and the City is required to contribute 6.35% (6.65% effective July 1, 2009) 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, 2009, 2008, and 2007 were \$23,129, \$19,939, and \$18,114, 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, 2009 is \$11,134 for vacation and \$11,138 for comp time, for a total liability of \$22,272. This liability has been computed on rates of pay in effect at June 30, 2009.

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, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Capital Projects	General	<u>\$ 10,992</u>

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

NOTE 8 - SERVICE AGREEMENTS

The City has an agreement with Washington County to provide police protection for its citizens. The City paid \$68,731 for services during the year ended June 30, 2009, and approved an agreement in the amount of \$70,792 for the year ending June 30, 2010.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
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 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

The City implemented GASB Statement No. 45 Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions during the year ended June 30, 2009.

**Plan Description:** As required by state law, the City offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all City employees, and the retiree must pay a health insurance premium equal to that charged for current employees.

**Potential for Liability:** A review of the City's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists.

NOTE 12 - COMMITMENT AND CONTINGENCY

Construction Contract

The City has entered into several construction contracts that are in process as of June 30, 2009. The net remaining amount committed to these contracts is approximately \$887,200, which will be paid with debt and existing funds.

Subsequent Event

The City has evaluated all subsequent events through December 23, 2009, the date the financial statements were available to be issued.

\* \* \*

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, 2009

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Total</u>
<b>Receipts:</b>			
Property tax	\$ 698,056	\$ --	\$ 698,056
Tax increment financing collections	215,652	--	215,652
Other city tax	214,175	--	214,175
Use of money and property	49,743	7,872	57,615
Licenses and permits	18,053	9,152	27,205
Intergovernmental	353,212	--	353,212
Charges for service	86,906	637,389	724,295
Miscellaneous	<u>167,519</u>	<u>11,393</u>	<u>178,912</u>
Total receipts	<u>1,803,316</u>	<u>665,806</u>	<u>2,469,122</u>
<b>Disbursements:</b>			
Public safety	156,819	--	156,819
Public works	185,787	--	185,787
Culture and recreation	457,115	--	457,115
Community and economic development	364,541	--	364,541
General government	144,508	--	144,508
Debt service	24,268	--	24,268
Capital projects	10,992	--	10,992
Business type activities	--	1,290,184	1,290,184
Total disbursements	<u>1,344,030</u>	<u>1,290,184</u>	<u>2,634,214</u>
Excess (deficiency) of receipts over (under) disbursements	459,286	( 624,378)	( 165,092)
Other financing sources (uses), net	<u>--</u>	<u>642,362</u>	<u>642,362</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	459,286	17,984	477,270
Balances beginning of year	<u>2,308,260</u>	<u>744,342</u>	<u>3,052,602</u>
Balances end of year	<u>\$ 2,767,546</u>	<u>\$ 762,326</u>	<u>\$ 3,529,872</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
\$ 689,222	\$ 689,222	\$ 8,834
215,351	215,351	301
218,112	218,112	( 3,937)
13,500	21,200	36,415
45,000	31,002	( 3,797)
214,300	352,774	438
649,382	728,969	( 4,674)
141,698	158,388	20,524
<u>2,186,565</u>	<u>2,415,018</u>	<u>54,104</u>
171,740	159,240	2,421
314,648	364,740	178,953
413,746	549,114	91,999
549,954	874,701	510,160
141,820	337,558	193,050
24,268	24,268	--
--	10,993	1
<u>521,136</u>	<u>1,787,497</u>	<u>497,313</u>
<u>2,137,312</u>	<u>4,108,111</u>	<u>1,473,897</u>
49,253	( 1,693,093)	1,528,001
<u>--</u>	<u>1,200,000</u>	<u>( 557,638)</u>
49,253	( 493,093)	970,363
<u>3,400,055</u>	<u>3,400,055</u>	<u>( 347,453)</u>
<u>\$ 3,449,308</u>	<u>\$ 2,906,962</u>	<u>\$ 622,910</u>

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

June 30, 2009

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 comparisons 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 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. 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 Fund 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, one budget amendment increased budgeted disbursements by \$1,970,799. The budget amendment is reflected in the final budgeted amount.

OTHER SUPPLEMENTARY INFORMATION

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, 2009

	<u>Special Revenue</u>	
	<u>Employee Benefits</u>	<u>Debt Service</u>
Receipts:		
Property tax	\$ 70,896	\$ 22,610
Other City tax	1,584	1,928
Use of money and property	--	1,295
Total receipts	<u>72,480</u>	<u>25,833</u>
Disbursements:		
Operating:		
Public works	11,551	--
Culture and recreation	39,941	--
General government	12,792	--
Debt service	--	24,268
Capital projects	--	--
Total disbursements	<u>64,284</u>	<u>24,268</u>
Excess (deficiency) of receipts over (under) disbursements	8,196	1,565
Other financing sources:		
Operating transfers in	--	--
Total other financing sources	<u>--</u>	<u>--</u>
Net change in cash balances	8,196	1,565
Cash balances beginning of year	<u>89,559</u>	<u>140,646</u>
Cash balances end of year	<u>\$ 97,755</u>	<u>\$ 142,211</u>
Cash Basis Fund Balances		
Reserved:		
Debt service	\$ --	\$ 142,211
Unreserved:		
Special revenue funds	<u>97,755</u>	<u>--</u>
Total cash basis fund balances	<u>\$ 97,755</u>	<u>\$ 142,211</u>

See accompanying independent auditor's report.

<u>Projects</u>	<u>Total</u>
\$ --	\$ 93,506
--	3,512
--	<u>1,295</u>
<u>--</u>	<u>98,313</u>
--	11,551
--	39,941
--	12,792
--	24,268
<u>10,992</u>	<u>10,992</u>
<u>10,992</u>	<u>99,544</u>
( 10,992)	( 1,231)
<u>10,992</u>	<u>10,992</u>
<u>10,992</u>	<u>10,992</u>
--	9,761
<u>--</u>	<u>230,205</u>
<u>\$ --</u>	<u>\$ 239,966</u>
\$ --	\$ 142,211
--	<u>97,755</u>
<u>\$ --</u>	<u>\$ 239,966</u>

CITY OF KALONA, IOWA  
 SCHEDULE OF INDEBTEDNESS  
 Year ended June 30, 2009

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>
General Obligation Capital Loan Notes:			
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
Sewer	November 26, 2008	3.00%	1,200,000
Total SRF loans			
Total			

See accompanying independent auditor's report.

<u>Balance Beginning of Year</u>	<u>Drawn During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<u>\$1,180,000</u>	<u>\$ --</u>	<u>\$ 55,000</u>	<u>\$ 1,125,000</u>	<u>\$ 44,268</u>	<u>\$ 3,586</u>
<u>1,180,000</u>	<u>--</u>	<u>55,000</u>	<u>1,125,000</u>	<u>44,268</u>	<u>3,586</u>
221,000	--	28,000	193,000	6,630	476
901,000	--	45,000	856,000	27,030	2,111
425,000	--	21,000	404,000	12,750	996
<u>--</u>	<u>642,362</u>	<u>--</u>	<u>642,362</u>	<u>2,951</u>	<u>1,584</u>
<u>1,547,000</u>	<u>642,362</u>	<u>94,000</u>	<u>2,095,362</u>	<u>49,361</u>	<u>5,167</u>
<u>\$2,727,000</u>	<u>\$ 642,362</u>	<u>\$ 149,000</u>	<u>\$ 3,220,362</u>	<u>\$ 93,629</u>	<u>\$ 8,753</u>

CITY OF KALONA, IOWA  
 BOND AND NOTE MATURITIES  
 June 30, 2009

Year ending June 30,	General Obligation Capital Loan Notes Library Note	
	Issued June 1, 2004	
	Interest Rate	Amount
2010	2.55%	\$ 60,000
2011	2.75	60,000
2012	3.00	60,000
2013	3.25	65,000
2014	3.45	65,000
2015-2019	3.60-4.05	360,000
2020 -2024	4.15-4.55	455,000
		<u>\$1,125,000</u>

State Revolving Funds

Year ending June 30,	Sewer Revenue Capital Loan Notes			
	Issued February 13, 1995		Issued December 12, 2003	
	Interest Rate	Amount	Interest Rate	Amount
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	3.00	34,000	3.00	24,000
2015-2019	3.00	36,000	3.00	134,000
2020-2024		--	3.00	155,000
2025-2029		--		--
2030-2034		--		--
2035-2039		--		--
		<u>\$ 193,000</u>		<u>\$ 404,000</u>

See accompanying independent auditor's report.

State Revolving Funds				
Water Revenue Capital Loan Notes		Sewer Revenue Capital Loan Notes		
Issued August 26, 2003		Issued November 26, 2008		
Interest Rate	Amount	Interest Rate	Amount	Total
3.00%	\$ 46,000	3.00%	\$ 24,000	\$ 121,000
3.00	47,000	3.00	25,000	124,000
3.00	49,000	3.00	26,000	129,000
3.00	50,000	3.00	27,000	134,000
3.00	52,000	3.00	28,000	138,000
3.00	283,000	3.00	150,000	603,000
3.00	329,000	3.00	178,000	662,000
	--	3.00	209,000	209,000
	--	3.00	245,000	245,000
	--	3.00	288,000	288,000
	<u>\$ 856,000</u>		<u>\$ 1,200,000</u>	<u>\$2,653,000</u>

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Receipts:					
Property tax	\$ 698,056	\$ 675,362	\$ 668,988	\$ 642,763	\$ 565,919
Tax increment financing collections	215,652	103,253	222,404	204,193	256,747
Other city tax	214,175	244,718	233,659	163,745	193,729
Use of money and property	49,743	75,555	203,833	32,292	31,300
Licenses and permits	18,053	6,335	4,228	4,190	3,633
Intergovernmental	353,212	371,898	226,786	209,545	203,853
Charges for service	86,906	92,198	83,288	73,917	67,064
Miscellaneous	<u>167,519</u>	<u>216,591</u>	<u>64,000</u>	<u>16,970</u>	<u>40,876</u>
Total	<u>\$1,803,316</u>	<u>\$1,785,910</u>	<u>\$1,707,186</u>	<u>\$1,347,615</u>	<u>\$1,363,121</u>
Disbursements:					
Operating:					
Public safety	\$ 156,819	\$ 167,840	\$ 142,978	\$ 133,259	\$ 130,999
Public works	185,787	395,722	481,566	144,316	397,995
Culture and recreation	457,115	502,739	370,763	331,379	291,540
Community and economic development	364,541	485,000	348,316	216,009	254,635
General government	144,508	399,324	186,825	169,350	111,373
Debt service	24,268	25,340	26,248	54,750	--
Capital projects	<u>10,992</u>	<u>--</u>	<u>--</u>	<u>66,566</u>	<u>1,246,982</u>
Total	<u>\$1,344,030</u>	<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.

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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, 2009, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated December 23, 2009. 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 09-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, 2009 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.

GAMMEL, Ben, Kuhn & W.P.C.

Atlantic, Iowa  
December 23, 2009

CITY OF KALONA, IOWA

Schedule of Findings

Year ended June 30, 2009

PART I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

09-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.

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CITY OF KALONA, IOWA

Schedule of Findings

Year ended June 30, 2009

PART II: Other Findings Related to Statutory Reporting

09-II-A Certified Budget: Disbursements during the year ended June 30, 2009 did not exceed the amounts budgeted.

09-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.

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

09-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.

09-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.

09-II-F Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.

09-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.

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

09-II-I General Obligation Loan Notes: 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 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 Special Revenue, Local Option Sales Tax Fund.

CITY OF KALONA, IOWA

Schedule of Findings

Year ended June 30, 2009

PART II: Other Findings Related to Statutory Reporting - Continued

09-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 consider including the balance of the cash drawer.

Conclusion: Response accepted.

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