

CITY OF KANAWHA

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

JUNE 30, 2009

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CITY OF KANAWHA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Terry Johnson	Mayor	Jan 2012
Michelle Wade	Council Member	Jan 2012
Ray Bassett	Council Member	Jan 2012
Brent Beukema	Council Member	Jan 2010
Nancy Litch	Council Member	Jan 2010
Judy Vander Ploeg	Council Member	Jan 2010
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, 2009, 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, 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.

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2009 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 12 and 24 and 25 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 five years ended June 30, 2008 (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, 2009

Renner & Birchem, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Kanawha provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 24.9%, or \$171,346 from fiscal 2008 to fiscal 2009. Intergovernmental decreased \$216,558, property tax receipts increased \$32,393 and local option tax increased \$12,415.
- Disbursements decreased 46.7% or \$452,270 in fiscal 2009 from fiscal 2008. Debt service disbursements increased \$4,293. Capital projects, general government and public safety disbursements decreased \$433,938, \$9,538 and \$18,194 respectively.
- The City's total cash basis net assets increased 24.5%, or \$95,733 from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities decreased \$407 and the assets of the business type activities increased by \$96,140.

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.

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 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 deteriorating.

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

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. 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 \$32,255 to \$31,848. The analysis that follows focuses on the changes in cash balances for governmental activities.

Cash Basis Net Assets of Government Activities		
	Year Ended June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service	\$	310
Operating grants, contributions and restricted interest	116,237	350,451
Capital grants, contributions, and restricted interest	17,656	
General receipts:		
Property tax	309,714	277,321
Local option tax	59,367	46,952
Unrestricted interest	4,495	4,992
Other general receipts	8,755	7,544
Total receipts	516,224	687,570

Public safety	118,398	136,592
Public works	137,752	118,378
Culture and recreation	45,061	53,996
Community and economic development	701	6,033
General government	83,867	93,405
Debt service	109,355	105,062
Capital projects	21,784	455,722
Total disbursements	<u>516,918</u>	<u>969,188</u>
Change in cash basis net assets before other financing sources	(694)	(281,618)
Other financing sources (uses)		
Sale of assets	287	15,129
Short-term debt retired		<u>(7,643)</u>
Total other financing sources (uses)	<u>287</u>	<u>7,486</u>
Change in cash basis net assets	(407)	(274,132)
Cash basis net assets beginning of year	<u>32,255</u>	<u>306,387</u>
Cash basis net assets end of year	<u>\$ 31,848</u>	<u>32,255</u>

The City's total receipts for governmental activities decreased by 24.9%, or \$171,346. The significant decrease in receipts was primarily the result of intergovernmental receipts. The total cost of all programs and services decreased by \$452,270, or 46.7%, with no new programs added this year.

The cost of all governmental activities this year was \$516,918 compared to \$969,188 last year. However, as shown in the Statement of Activities and Net Assets on page 14, the amount taxpayers ultimately financed for these activities was only \$383,025 because some of the cost was paid by those directly benefiting from the programs or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$133,893). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service totaled approximately \$133,893. The City paid for the remaining "public benefit" portion of governmental activities with \$309,714 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Cash Basis Net Assets of Business Type Activities

Receipts:	Year Ended June 30,	
	2009	2008
Program receipts:		
Charges for service:		
Water	\$ 113,270	109,800
Sewer	64,162	62,620
General Receipts:		
Intergovernmental	33,540	
Total receipts	210,972	172,420
 Disbursements:		
Water	31,677	33,355
Sewer	58,993	17,212
Debt service	24,162	23,787
Total disbursements	114,832	74,354
Change in cash basis net assets before transfers	96,140	98,066
Cash basis net assets beginning of year	358,776	260,710
Cash basis net assets end of year	\$ 454,916	358,776

Total business type activities receipts for the fiscal year were \$210,972 compared to \$172,420 last year. Total disbursements, including debt service, for the fiscal year increased by \$40,478 to a total of \$114,832. The cash balance increased by \$96,140 during the fiscal year compared to an increase of \$98,066 last year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Kanawha completed the year, its governmental funds reported a combined fund balance of \$31,848, a decrease of \$407 over last year's total of \$32,255. 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 \$73,734 from the prior year to \$79,160.
- The Road Use Tax Fund cash balance increased by \$5,773 to \$73,075 during the fiscal year.
- Capital Projects Fund cash balance decreased from \$(253,992) to (\$258,120), due to final payment for the bridge replacement project and the water main project.
- There was a decrease in the Debt Service Fund cash balance of \$88 for an ending balance of (\$6,451).
- The Employee Benefits Fund balance increased by \$8,348 to \$50,884 during the fiscal year.

- The Local Option Fund balance decreased by \$84,046 to \$93,300 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$81,593 to \$328,319 during the fiscal year.
- The Sewer Fund cash balance increased by \$14,547 to \$120,048 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 March 10, 2009 to provide for additional \$314,406 receipts and \$61,902 disbursements to provide for additional disbursements for capital projects and business type activities.

DEBT ADMINISTRATION

At June 30, 2009, the City had \$828,000 in general obligation and revenue bonds, compared to \$924,000 at the end of the prior year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	2009	2008
General obligation bonds	\$735,000	810,000
Revenue notes	93,000	114,000
Total	\$828,000	924,000

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 \$735,000 is below its constitutional debt limit of approximately \$1,157,000.

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 2010 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 2010. Amounts available for appropriation in the operating budget are \$849,378, a decrease of 26.9% from the final 2009 budget. Budgeted disbursements are expected to decrease by approximately \$33,256. The City has added no major new programs or initiatives to the 2010 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$4,270 by the close of 2010. Actual amounts can and usually do differ from budgeted amounts.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sharon Grimm, City Clerk, 121 North Main Street, Kanawha, Iowa.

BASIC FINANCIAL STATEMENTS

City of Kanawha

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2009

	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
			Interest	Interest		Activities	
Functions / Programs:							
Governmental activities:							
Public safety	\$ 118,398		24,364		(94,034)		(94,034)
Public works	137,752		61,315		(76,437)		(76,437)
Culture and recreation	45,061		30,558		(14,503)		(14,503)
Community and economic development	701				(701)		(701)
General government	83,867				(83,867)		(83,867)
Debt service	109,355				(109,355)		(109,355)
Capital projects	21,784			17,656	(4,128)		(4,128)
Total governmental activities	516,918		116,237	17,656	(383,025)		(383,025)
Business type activities:							
Water	31,677	113,270				81,593	81,593
Sewer	83,155	64,162	33,540			14,547	14,547
Total business type activities	114,832	177,432	33,540			96,140	96,140
Total	\$ 631,750	177,432	149,777	17,656	(383,025)	96,140	(286,885)
General Receipts:							
Property tax levied for:							
General purposes					\$ 148,204		148,204
Employee benefits and insurance					52,243		52,243
Debt service					109,267		109,267
Local option sales tax					59,367		59,367
Unrestricted interest on investments					4,495		4,495
Miscellaneous					8,755		8,755
Sale of assets					287		287
Total general receipts and transfers					382,618		382,618
Change in cash basis net assets					(407)	96,140	95,733
Cash basis net assets beginning of year					32,255	358,776	391,031
Cash basis net assets end of year					\$ 31,848	454,916	486,764
Cash Basis Net Assets							
Restricted:							
Streets					\$ 73,075		73,075
Debt service					(6,451)	6,549	98
Other purposes					(207,236)		(207,236)
Unrestricted					172,460	448,367	620,827
Total cash basis net assets					\$ 31,848	454,916	486,764

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, 2009

	Special Revenue						Total
	General	Road Use Tax	Local Option	Employee Benefits	Debt Service	Capital Projects	
Receipts:							
Property tax	\$ 148,204			52,243	109,267		309,714
Other city tax			59,367				59,367
Licenses and permits	450						450
Use of money and property	4,495						4,495
Intergovernmental	54,922	61,315				17,656	133,893
Miscellaneous	8,305						8,305
Total receipts	216,376	61,315	59,367	52,243	109,267	17,656	516,224
Disbursements:							
Operating:							
Public safety	100,587			17,811			118,398
Public works	68,993	55,542	1,160	12,057			137,752
Culture and recreation	42,909			2,152			45,061
Community and economic development	701						701
General government	71,992			11,875			83,867
Debt service					109,355		109,355
Capital projects						21,784	21,784
Total disbursements	285,182	55,542	1,160	43,895	109,355	21,784	516,918
Excess (deficiency) of receipts over (under) disbursements	(68,806)	5,773	58,207	8,348	(88)	(4,128)	(694)
Other financing sources (uses):							
Sale of assets	287						287
Operating transfers in	142,253						142,253
Operating transfers out			(142,253)				(142,253)
Total other financing sources (uses)	142,540		(142,253)				287
Net change in cash balances	73,734	5,773	(84,046)	8,348	(88)	(4,128)	(407)
Cash balances beginning of year	5,426	67,302	177,346	42,536	(6,363)	(253,992)	32,255
Cash balances end of year	\$ 79,160	73,075	93,300	50,884	(6,451)	(258,120)	31,848
Cash Basis Fund Balances							
Reserved:							
Debt service					(6,451)		(6,451)
Unreserved:							
General fund	\$ 79,160						79,160
Special revenue fund		73,075	93,300	50,884			217,259
Capital projects fund						(258,120)	(258,120)
Total cash basis fund balances	\$ 79,160	73,075	93,300	50,884	(6,451)	(258,120)	31,848

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, 2009

	Proprietary Funds				Total
	Water	Sewer Rental	Sewer Revenue Reserve	Sewer Improvement	
Operating receipts:					
Charges for service	\$ 113,270	64,162			177,432
Intergovernmental		33,540			33,540
Total operating receipts	113,270	97,702			210,972
Operating disbursements:					
Business type activities	31,677	58,993			90,670
Total operating disbursements	31,677	58,993			90,670
Excess of operating receipts over operating disbursements	81,593	38,709			120,302
Non-operating (disbursements):					
Debt service		(24,162)			(24,162)
Excess of receipts over disbursements	81,593	14,547			96,140
Cash balance beginning of year	246,726	105,501	2,049	4,500	358,776
Cash balances end of year	\$ 328,319	120,048	2,049	4,500	454,916
Cash Basis Fund Balances					
Reserved for debt service			2,049	4,500	6,549
Unreserved	\$ 328,319	120,048			448,367
Total cash basis fund balances	\$ 328,319	120,048	2,049	4,500	454,916

See notes to financial statements.

CITY OF KANAWHA

Notes to Financial Statements

June 30, 2009

(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 and recreation, community and economic development and general governmental 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, 2009

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, 2009

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, 2009, disbursements exceeded the amounts budgeted in the debt service function.

(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.

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, 2009

(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		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
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>\$ 93,000</u>	<u>10,814</u>	<u>735,000</u>	<u>179,343</u>	<u>828,000</u>	<u>190,157</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, 2009

(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 4.10% of their annual covered salary and the City is required to contribute 6.35% 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, 2009, 2008 and 2007 were \$11,192, \$9,927, and \$8,875 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, 2009, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2009</u>
Vacation	\$ <u>3,642</u>

This liability has been computed based on rates of pay as of June 30, 2009.

(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, 2009.

<u>Year Ending</u>	<u>Police Vehicle</u>
2010	\$ 4,764
2011	<u>4,765</u>
Total	9,529
Less amount representing interest	<u>1,617</u>
Present value of minimum net lease payments	\$ <u>7,912</u>

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2009

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$4,895 during the year ended June 30, 2009.

(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 \$6,451 and \$258,120 respectively, at June 30, 2009. The deficit balances were the result of costs incurred prior to availability of funds. The deficit will be eliminated upon transfer of funds.

(10) 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>
General	Special Revenue:	
	Local Option	\$ <u>142,253</u>
Total		\$ <u>142,253</u>

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

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, 2009

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Funds		Original	Final	Total
	Actual	Actual				Variance
Receipts:						
Property tax	\$ 309,714		309,714	298,559	298,559	11,155
Other city tax	59,367		59,367	58,225	58,225	1,142
Licenses and permits	450		450	20	20	430
Use of money and property	4,495		4,495	2,200	2,200	2,295
Intergovernmental	133,893	33,540	167,433	101,089	101,089	66,344
Charges for services		177,432	177,432	189,074	189,074	(11,642)
Miscellaneous	8,305		8,305	38,200	38,200	(29,895)
Total receipts	516,224	210,972	727,196	687,367	687,367	39,829
Disbursements:						
Public safety	118,398		118,398	120,953	120,953	2,555
Public works	137,752		137,752	152,153	152,153	14,401
Culture and recreation	45,061		45,061	106,043	106,043	60,982
Community and economic development	701		701	3,000	3,000	2,299
General government	83,867		83,867	86,523	86,523	2,656
Debt service	109,355		109,355	109,156	109,156	(199)
Capital projects	21,784		21,784		21,785	1
Business type activities		114,832	114,832	102,327	142,444	27,612
Total disbursements	516,918	114,832	631,750	680,155	742,057	110,307
Excess (deficiency) of receipts over (under) disbursements	(694)	96,140	95,446	7,212	(54,690)	150,136
Other financing sources, net	287		287		314,406	(314,119)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(407)	96,140	95,733	7,212	259,716	(163,983)
Balances beginning of year	32,255	358,776	391,031	401,300	401,300	(10,269)
Balances end of year	\$ 31,848	454,916	486,764	408,512	661,016	(174,252)

See accompanying independent auditor's report.

City of Kanawha

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 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 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 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 \$61,902. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amount budgeted in the debt service function.

OTHER SUPPLEMENTARY INFORMATION

City of Kanawha

Schedule of Indebtedness

Year ended June 30, 2009

Obligation	Date Of Issue	Rate Of Interest	Amount Originally Issued	Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation bonds:							
Fire department	5/1/1995	5.50 - 5.65%	\$ 150,000	45,000	15,000	30,000	2,543
General corporate purpose	5/1/2007	4.00 - 4.35	815,000	765,000	60,000	705,000	31,412
Total				810,000	75,000	735,000	33,955
Revenue bond:							
Sewer lagoon	12/30/1992	4.62%	\$ 242,000	88,000	16,000	72,000	2,444
Sewer	12/30/1992	4.37	73,000	26,000	5,000	21,000	718
Total				114,000	21,000	93,000	3,162

See accompanying independent auditor's report.

CITY OF KANAWHA

Bond and Note Maturities

June 30, 2009

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	
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
Total		\$ 30,000		705,000	735,000

REVENUE NOTES					
Year Ending June 30,	Sewer Lagoon Issued December 30, 1992		Sewer Issued December 30, 1992		Total
	Interest Rates	Amount	Interest Rates	Amount	
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
		\$ 72,000		21,000	93,000

See accompanying independent auditor's report.

CITY OF KANAWHA

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

For the Last Six Years

	2009	2008	2007	2006	2005	2004
Receipts:						
Property tax	\$ 309,714	277,321	230,406	222,467	220,944	204,334
Other city tax	59,367	46,952	49,065	51,972	44,957	46,235
Licenses and permits	450	260	265	678	1,015	570
Use of money and property	4,495	4,992	3,008	4,266	2,961	2,461
Intergovernmental	133,893	350,451	64,078	125,571	74,199	110,985
Charges for service		310	2,903	290	2,467	16,207
Miscellaneous	8,305	7,284	70,946	55,921	106,000	67,235
Total	\$ 516,224	687,570	420,671	461,165	452,543	448,027
Disbursements:						
Operating:						
Public safety	\$ 118,398	136,592	115,850	181,550	110,432	163,609
Public works	137,752	118,378	105,846	134,784	145,840	109,102
Culture and recreation	45,061	53,996	54,464	55,068	61,138	59,911
Community and economic development	701	6,033	1,733	2,860		2,805
General government	83,867	93,405	83,732	79,402	69,823	56,736
Debt service	109,355	105,062	358,512	58,460	76,075	68,035
Capital projects	21,784	455,722	371,642	30,096	10,000	
Total	\$ 516,918	969,188	1,091,779	542,220	473,308	460,198

See accompanying independent auditor's report.

Sewer Revenue Capital Note Information

June 30, 2009

Rates and Customer Usage:

At June 30, 2009 the City had approximately 350 customers using the wastewater treatment system. At June 30, 2009 the City's sewer charges were 65% of the customer charge for water usage with minimum charge of \$10.69. Water usage is charged out at \$6.25 per 1000 gallons used in excess of 2,625 gallons with a minimum charge of \$16.45 per building.

Insurance Coverage:

Coverage	Limit	Deductible	Coinsurance
Municipal building	\$ 690,000	\$ 500	90%
Municipal building contents	100,000	500	90
Old city hall	69,000	500	90
Old city hall contents	10,000	500	90
Water tower	420,000	500	90
Water building and equipment	1,500	500	90
Sewage lift station equipment	1,450	500	90
Sewage lift station	80,000	500	90
Fences and lighting	124,500	500	90
Shelter house/concession stand	28,500	500	90
Shelter house-picnic	26,000	500	90
Shelter house contents	18,000	500	90
Playground equipment	30,000	500	90
Pole Shelter	7,000	500	90
Water treatment facility	575,000	500	90
Water treatment building contents	12,500	500	90
Fire department	450,000	500	90
Fire department contents	108,000	500	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, 2009, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 10, 2009. 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-09, and I-B-09 and I-C-09 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, 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 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, 2009

Renner & Birchem, P.C.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2009

Part I: Findings Related to the Financial Statements:

Significant Deficiencies:

I-A-09 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-09 Disbursements and Payroll – Compensation time for Mark Hennigar, policeman, in the amount of \$4,805.00 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 250 hours of compensation time.

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

IPER's wages for December 2008 were overstated. City clerk inadvertently entered quarter end wages instead of month end wages. City has a credit from IPERS for \$2,452.80 at June 30, 2009.

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.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2009

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

I-C-09 Preparation of Financial Statements – The City does not have an internal control system designed to provide for the preparation of the financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for the governmental entity similar in population to the City of Kanawha. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the City’s management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – The City will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

I-D-09 Delinquent Utility Bills – During our audit procedures it was noted that a significant dollar amount of utility billings were delinquent. The City should take steps to collect the delinquent amounts.

Recommendation – The City should investigate collection steps such as the Income Offset Program (IOP), administrated by the Iowa Department of Administrative Services, State Accounting Enterprise, a process which allows the state to withhold money owed to a person (such as an income tax refund) when that person is indebted to the public.

Response – We will investigate this.

Conclusion - Response accepted.

Instances of Non – Compliance:

No matters were reported.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2009

Part II: Other Findings Related to Required Statutory Reporting:

II-A-09 Certified Budget – Disbursements during the year ended June 30, 2009, exceeded amounts budgeted in the debt service function. 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-09 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-C-09 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	Repairs	\$ 2,437
Michelle Wade, Council Member	Summer Rec Coach	1,200
David Spangler, Public Works	Ventilation Lift Station	421
Mark Hennigar, Police	Storm Sewer Labor	837

Recommendation – In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Member and the Public Works Director do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the fiscal year. Since the total paid to Mr. Hennigar exceeds \$2,500 it is not in accordance with Chapter 362.5 of the Code of Iowa and the City attorney should be consulted.

Response – Due to lack of local business providing this service a competitive bidding process was not entered into.

Conclusion - Response accepted.

II-D-09 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, 2009

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

II-E-09 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not, with the exception of the payment of compensation time to police officer Mark Hennigar as noted on the findings related to the financial statements I-B-09. Council minutes were not all signed by the mayor and clerk.

The minutes and the published minutes for the first half of the year 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. Subsequently, the minutes for the second half of the year did include the proper information.

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

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

Conclusion – Response accepted.

II-F-09 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-09 Revenue Notes – The revenue note provisions continue to be not complied with during the year ended June 30, 2009. 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-09 Financial Condition – The Debt Service Fund and Capital Projects Fund had deficit balances at June 30, 2009 of \$6,451 and \$258,120, 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. The Capital Projects Fund should be closed out as the project is completed.

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

Conclusion – Response accepted.