

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

JUNE 30, 2010

CITY OF KALONA, IOWA
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CITY OF KALONA, IOWA
OFFICIALS
June 30, 2010

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jerry Kauffman	Mayor	December, 2011
Ken Herington	Mayor Pro tem	December, 2013
Steve Lafaurie	Council Member	December, 2011
David Bentley	Council Member	December, 2013
Claudine Miller	Council Member	December, 2011
David Kempf (Resigned April, 2010)	Council Member	
Mark Robe (Appointed June, 2010)	Council Member	December, 2010
Ryan Schlabaugh	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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DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Kalona, Iowa, as of and for the year ended June 30, 2010, 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 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 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, 2010, 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

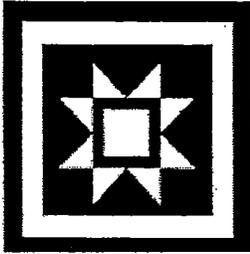
In accordance with Government Auditing Standards, we have also issued our report dated January 18, 2011 on our consideration of the City of Kalona's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 important for assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 4d and 18 through 19 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 four years ended June 30, 2009 (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 report 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.

Garnett, Ben, Kuhn & Co. P.C.

Atlantic, Iowa
January 18, 2011



City Of Kalona

511 C Avenue - P.O. Box 1213

Kalona, Iowa 52247-1213

319-656-2310

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, 2010. 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.

2010 FINANCIAL HIGHLIGHTS

- Revenues of the City increased approximately 1% from fiscal year 2009 to 2010, including Sewer Fund debt proceeds and Downtown Project proceeds.
- Disbursements of the City increased approximately 54% from fiscal year 2009 to 2010 due to completion of the sewer project, start of the downtown project, major repairs at pool and city park, renovations at the maintenance building, remodeling of city hall, and engineering on replacing bridge on A Avenue.
- The City's total cash basis net assets decreased approximately 26% or \$926,377 due mainly to completion of Sewer Project, start of Downtown Project, and major renovations of city facilities during this time. Of this amount, the assets of the governmental activities decreased approximately \$923,550 and the assets of the business type activities decreased by approximately \$2,827.

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.

Jerry Kauffman, Mayor

Ryan Schlaubaugh, City Administrator

Karen Christner, City Clerk

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

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from \$2,767,546 to \$1,843,996. 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,	
	2010	2009
Receipts and transfers:		
Program receipts:		
Charges for services	\$ 136,895	\$ 94,976
Operating grants	242,865	353,212
Capital grants	114,925	--
General receipts:		
Property tax	727,676	675,446
Debt service property tax	28,221	22,610
Local option sales tax	215,625	197,006
TIF revenues	187,925	215,652
Other city tax	15,868	17,169
Grants and contributions not restricted to a specific purpose	137,755	141,306
Unrestricted interest	30,301	40,539
Miscellaneous	30,937	45,400
Transfer in	365,118	10,992
Total receipts and transfers	<u>2,234,111</u>	<u>1,814,308</u>
Disbursements and transfers:		
Public safety	158,602	156,819
Public works	462,789	185,787
Culture and recreation	641,988	457,115
Community and economic development	706,375	364,541
General government	794,759	144,508
Debt service	28,030	24,268
Capital projects	--	10,992
Transfers out	365,118	10,992
Total disbursements and transfers	<u>3,157,661</u>	<u>1,355,022</u>
Increase (decrease) in cash basis net assets	(923,550)	459,286
Cash basis net assets beginning of year	<u>2,767,546</u>	<u>2,308,260</u>
Cash basis net assets end of year	<u>\$ 1,843,996</u>	<u>\$ 2,767,546</u>

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for services		
Water	\$ 322,741	\$ 334,763
Sewer	311,765	259,067
Garbage	48,333	52,711
General receipts:		
Other general receipts	32,736	19,265
Debt proceeds	557,638	642,362
Transfers in	--	--
Total receipts	<u>1,273,213</u>	<u>1,308,168</u>
Disbursements and transfers:		
Water	302,596	290,727
Sewer	924,466	952,025
Garbage	48,978	47,432
Transfers out	---	--
Total disbursements and transfers	<u>1,276,040</u>	<u>1,290,184</u>
Increase (decrease) in cash basis net assets	(2,827)	17,984
Cash basis net assets beginning of year	<u>762,326</u>	<u>744,342</u>
Cash basis net assets end of year	<u>\$ 759,499</u>	<u>\$ 762,326</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Kalona, Iowa, completed the year, its funds reported a combined fund balance of \$2,603,495, which is a decrease of \$926,377. Major reasons for changes in balances from fiscal year 2009 are:

- The General Fund revenue showed an increase due to Riverboat Casino Funds and donations made, in regards to Downtown Project. Expenditures increased due to Downtown Project, major renovations at Pool, City Hall, and Maintenance Building.
- The Road Use Tax Fund balance increased slightly and is based on per capita dollars from the state and disbursement increased due to Downtown Project and engineering of replacement of A Avenue bridge Project.
- The Tax Increment Financing Fund receipts decreased by \$27,727 in fiscal year 2010. Revenue decrease was due to the completion of development agreements formed with the City.
- The Local Option Sales Tax Fund receipts increased by \$18,619 from fiscal year 2009. Revenue increase was due to the state of the economy and sales activity. Expenditures increased with match grants to the First Responders and Fire Department, Playground Project, Park Shelter Roofs, and Downtown project.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Utility Fund balance increased by \$40,386 from fiscal year 2009, due to the reduction of debt payments.

The Sewer Utility Fund balance decreased by \$42,568 from fiscal year 2009 due to disbursements for a Lift Station Project.

BUDGETARY HIGHLIGHTS

The City amended its budget twice, resulting in an increase of receipts of approximately \$646,944 and disbursements of approximately \$3,681,498. Increase in revenues is due to State Revolving Fund Loan for the Sewer Lift Station Project. Increase in expenses is due to winter street repairs, improvements at Maintenance Building, City Hall, Rec Center, Pool, and Park, and Downtown Project.

DEBT ADMINISTRATION

At June 30, 2010, the City had approximately \$3,597,000 in bonds and other long-term debt, compared to approximately \$3,220,362 last year, as shown below.

Outstanding Debt at Year-End

	Year ended June 30,	
	2010	2009
General Obligation and State Revolving Fund Debt		
1995 Sewer Project (State Revolving Fund)	\$ 164,000	\$ 193,000
2003 Water Project (State Revolving Fund)	810,000	856,000
2003 Sewer Project (State Revolving Fund)	382,000	404,000
2004 Library Project	1,065,000	1,125,000
2008 Sewer Project (State Revolving Fund)	<u>1,176,000</u>	<u>642,362</u>
Total	<u>\$ 3,597,000</u>	<u>\$ 3,220,362</u>

Debt increased due to additional State Revolving Fund debt in 2010.

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 2011 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, 2010

	<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	\$ 158,602	\$ 11,995	\$ --
Public works	462,789	350	212,702
Culture and recreation	641,988	119,395	29,471
Community and economic development	706,375	--	--
General government	794,759	5,155	--
Debt service	<u>28,030</u>	<u>--</u>	<u>692</u>
Total governmental activities	<u>2,792,543</u>	<u>136,895</u>	<u>242,865</u>
Business type activities:			
Water	302,596	322,741	--
Sewer	924,466	311,765	--
Garbage	<u>48,978</u>	<u>48,333</u>	<u>--</u>
Total business type activities	<u>1,276,040</u>	<u>682,839</u>	<u>--</u>
Total	<u>\$ 4,068,583</u>	<u>\$ 819,734</u>	<u>\$ 242,865</u>
General Receipts:			
Property tax levied for:			
General purposes			
Debt service			
Tax increment financing			
Local option sales 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
\$ --	\$ (146,607)	\$ --	\$ (146,607)
--	(249,737)	--	(249,737)
--	(493,122)	--	(493,122)
--	(706,375)	--	(706,375)
114,925	(674,679)	--	(674,679)
--	(27,338)	--	(27,338)
<u>114,925</u>	<u>(2,297,858)</u>	<u>--</u>	<u>(2,297,858)</u>
--	--	20,145	20,145
--	--	(612,701)	(612,701)
--	--	(645)	(645)
--	--	(593,201)	(593,201)
<u>\$ 114,925</u>	<u>(2,297,858)</u>	<u>(593,201)</u>	<u>(2,891,059)</u>
	743,544	--	743,544
	28,221	--	28,221
	187,925	--	187,925
	215,625	--	215,625
	137,755	--	137,755
	30,301	6,574	36,875
	--	557,638	557,638
	<u>30,937</u>	<u>26,162</u>	<u>57,099</u>
	<u>1,374,308</u>	<u>590,374</u>	<u>1,964,682</u>
	(923,550)	(2,827)	(926,377)
	<u>2,767,546</u>	<u>762,326</u>	<u>3,529,872</u>
	<u>\$ 1,843,996</u>	<u>\$ 759,499</u>	<u>\$ 2,603,495</u>

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

As of and for the year ended June 30, 2010

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts</u> Operating Grants, Contributions, and Restricted Interest
Cash Basis Net Assets			
Restricted:			
Nonexpendable:			
Cemetery perpetual care			
Expendable:			
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 <u>Interest</u>	<u>Net (Disbursements) Receipts and Changes in Cash Basis Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
	\$ 5,486	\$ --	\$ 5,486
	159,781	--	159,781
	28,310	--	28,310
	91,629	--	91,629
	160,416	--	160,416
	<u>1,398,374</u>	<u>759,499</u>	<u>2,157,873</u>
	<u>\$ 1,843,996</u>	<u>\$ 759,499</u>	<u>\$ 2,603,495</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, 2010

	<u>General</u>	<u>Special Revenue Road Use Tax</u>
Receipts:		
Property tax	\$ 650,902	\$ --
Tax increment financing	--	--
Other city tax	13,690	--
Licenses and permits	13,194	--
Use of money and property	63,238	--
Intergovernmental	29,471	212,702
Charges for service	120,790	--
Miscellaneous	253,591	--
Total receipts	<u>1,144,876</u>	<u>212,702</u>
Disbursements:		
Operating:		
Public safety	158,602	--
Public works	220,491	230,681
Culture and recreation	599,496	--
Community and economic development	8,077	--
General government	780,018	--
Debt service	--	--
Total disbursements	<u>1,766,684</u>	<u>230,681</u>
Excess (deficiency) of receipts over (under) disbursements	(621,808)	(17,979)
Other financing sources (uses):		
Operating transfers in	365,118	--
Operating transfers out	--	(175,000)
Total other financing sources (uses)	<u>365,118</u>	<u>(175,000)</u>
Net change in cash balances	(256,690)	(192,979)
Cash balances beginning of year	<u>1,674,203</u>	<u>352,760</u>
Cash balances end of year	<u>\$ 1,417,513</u>	<u>\$ 159,781</u>

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<u>Special Revenue</u>			
<u>Urban Renewal Tax Increment</u>	<u>Local Option Sales Tax</u>	<u>Nonmajor</u>	<u>Total</u>
\$ --	\$ --	\$ 104,994	\$ 755,896
187,925	--	--	187,925
--	215,625	2,179	231,494
--	--	--	13,194
--	--	692	63,930
--	--	--	242,173
--	--	--	120,790
--	--	--	253,591
<u>187,925</u>	<u>215,625</u>	<u>107,865</u>	<u>1,868,993</u>
--	--	--	158,602
--	--	11,617	462,789
--	--	42,492	641,988
434,894	263,404	--	706,375
--	--	14,741	794,759
--	--	28,030	28,030
<u>434,894</u>	<u>263,404</u>	<u>96,880</u>	<u>2,792,543</u>
(246,969)	(47,779)	10,985	(923,550)
--	--	--	365,118
<u>--</u>	<u>(125,000)</u>	<u>(65,118)</u>	<u>(365,118)</u>
<u>--</u>	<u>(125,000)</u>	<u>(65,118)</u>	<u>--</u>
(246,969)	(172,779)	(54,133)	(923,550)
<u>275,279</u>	<u>225,338</u>	<u>239,966</u>	<u>2,767,546</u>
<u>\$ 28,310</u>	<u>\$ 52,559</u>	<u>\$ 185,833</u>	<u>\$ 1,843,996</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, 2010

	General	Special Revenue Road Use Tax
Cash Basis Net Assets		
Reserved for debt service	\$ --	\$ --
Unreserved:		
General fund	1,417,513	--
Special revenue funds	--	159,781
Capital projects fund	--	--
Total cash basis net assets	\$ 1,417,513	\$ 159,781

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>
\$ --	\$ --	\$ 91,629	\$ 91,629
--	--	--	1,417,513
28,310	52,559	107,857	348,507
<u>--</u>	<u>--</u>	<u>(13,653)</u>	<u>(13,653)</u>
<u>\$ 28,310</u>	<u>\$ 52,559</u>	<u>\$ 185,833</u>	<u>\$ 1,843,996</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, 2010

	Enterprise Funds			Total
	Water	Sewer	Garbage	
Operating Receipts:				
License and permits	\$ 2,840	\$ 2,150	\$ --	\$ 4,990
Charges for services	<u>319,901</u>	<u>309,615</u>	<u>48,333</u>	<u>677,849</u>
Total operating receipts	322,741	311,765	48,333	682,839
Operating Disbursements:				
Business type activities	<u>228,776</u>	<u>158,019</u>	<u>48,978</u>	<u>435,773</u>
Total operating disbursements	<u>228,776</u>	<u>158,019</u>	<u>48,978</u>	<u>435,773</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	93,965	153,746	(645)	247,066
Non-operating receipts (disbursements):				
Interest on investments	3,546	3,028	--	6,574
Miscellaneous	16,695	9,467	--	26,162
Debt proceeds	--	557,638	--	557,638
Debt service	(73,820)	(142,407)	--	(216,227)
Capital projects	<u>--</u>	<u>(624,040)</u>	<u>--</u>	<u>(624,040)</u>
Total non-operating receipts (disbursements)	<u>(53,579)</u>	<u>(196,314)</u>	<u>--</u>	<u>(249,893)</u>
Excess (deficiency) of receipts over (under) disbursements and net change in cash balances	40,386	(42,568)	(645)	(2,827)
Cash balances beginning of year	<u>382,609</u>	<u>327,012</u>	<u>52,705</u>	<u>762,326</u>
Cash balances end of year	<u>\$ 422,995</u>	<u>\$ 284,444</u>	<u>\$ 52,060</u>	<u>\$ 759,499</u>
Cash Basis Fund Balances				
Unreserved	<u>\$ 422,995</u>	<u>\$ 284,444</u>	<u>\$ 52,060</u>	<u>\$ 759,499</u>
Total cash basis fund balances	<u>\$ 422,995</u>	<u>\$ 284,444</u>	<u>\$ 52,060</u>	<u>\$ 759,499</u>

The accompanying notes are an integral part of these statements.

CITY OF KALONA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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 and recreation, community and economic development, and general government 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, 2010

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 the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

Expendable 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 categories. 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, 2010

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, 2010 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, 2010

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
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	65,000	33,695	142,000	60,210	207,000	93,905
2016-2020	380,000	129,025	585,000	245,670	965,000	374,695
2021-2025	370,000	42,325	577,000	152,280	947,000	194,605
2026-2030	--	--	216,000	92,940	216,000	92,940
2031-2035	--	--	253,000	58,380	253,000	58,380
2036-2039	--	--	234,000	17,790	234,000	17,790
	<u>\$1,065,000</u>	<u>\$ 360,383</u>	<u>\$2,532,000</u>	<u>\$ 908,190</u>	<u>\$3,597,000</u>	<u>\$1,268,573</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, \$31,970 of note principal and \$43,030 of interest was paid out of the Special Revenue, Local Option Sales Tax Fund. In addition, the City reports these expenditures as community and economic development disbursements rather than debt service disbursements.

CITY OF KALONA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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 76 percent of the net receipts. The total principal and interest remaining to be paid on the notes is \$1,004,040. For the current year, principal and interest paid and total customer net receipts were \$71,680 and \$93,965, 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, 2008. 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 82 percent of the net receipts. The total principal and interest remaining to be paid on the notes is \$2,436,150. For the current year, principal and interest paid and total customer net receipts were \$126,301 and \$153,746, 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, 2010

NOTE 4 - PENSION AND RETIREMENT BENEFITS - Continued

Most regular plan members are required to contribute 4.30% (4.50% effective July 1, 2010) of their annual covered salary and the City is required to contribute 6.65% (6.95% effective July 1, 2010) 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, 2010, 2009, and 2008 were \$26,245, \$23,129, and \$19,939, 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, 2010 is \$9,438 for vacation and \$8,365 for comp time, for a total liability of \$17,803. This liability has been computed on rates of pay in effect at June 30, 2010.

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, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General Fund	Special Revenue	
	Local Option Sales Tax	\$ 125,000
	Road Use Tax	175,000
	Debt Service	51,465
	Capital Projects	<u>13,653</u>
		<u>\$ 365,118</u>

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

CITY OF KALONA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 8 - SERVICE AGREEMENTS

The City has an agreement with Washington County to obtain police protection for its citizens. The City paid \$70,218 for services during the year ended June 30, 2010, and approved an agreement in the amount of \$70,807 for the year ending June 30, 2011.

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. The City anticipates payments to repay the loan to begin during FY 2011.

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

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: The City currently finances a retiree benefit plan on a pay-as-you-go basis. Currently, the City has no retired employees in the plan. 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 - DEFICIT BALANCE

The Capital Projects Fund had a deficit balance of \$13,653 at June 30, 2010. The deficit balance was a result of a transfer to the General Fund for a project the General Fund paid for. The City will make a transfer from another fund to bring the fund back into sound financial position during fiscal year 2011.

CITY OF KALONA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 13 - CAPITAL PROJECTS FUND

The City uses the General Fund, general government function, and Urban Renewal Tax Increment Fund, community and economic development function, to account for the resources used in the acquisition and construction of capital facilities. These expenditures should be budgeted and reported under the Capital Projects Fund, capital projects function. The City's total capital projects expenditures for the year ended June 30, 2010 were \$867,011.

NOTE 14 - COMMITMENTS AND CONTINGENCY

Construction Contract

The City has entered into a construction contract that is in process as of June 30, 2010. The net remaining amount committed to this contract is approximately \$2,360,000 for downtown revitalization, which will be paid with debt and existing funds.

Debt Proceeds

The City has issued \$1,600,000 in general obligation bonds since year end for the downtown revitalization project.

Subsequent Event

The City has evaluated all subsequent events through January 18, 2011, 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 PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2010

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Total</u>
Receipts:			
Property tax	\$ 755,896	\$ --	\$ 755,896
Tax increment financing collections	187,925	--	187,925
Other city tax	231,494	--	231,494
Licenses and permits	13,194	4,990	18,184
Use of money and property	63,930	6,574	70,504
Intergovernmental	242,173	--	242,173
Charges for service	120,790	677,849	798,639
Miscellaneous	253,591	26,162	279,753
Total receipts	<u>1,868,993</u>	<u>715,575</u>	<u>2,584,568</u>
Disbursements:			
Public safety	158,602	--	158,602
Public works	462,789	--	462,789
Culture and recreation	641,988	--	641,988
Community and economic development	706,375	--	706,375
General government	794,759	--	794,759
Debt service	28,030	--	28,030
Business type activities	--	1,276,040	1,276,040
Total disbursements	<u>2,792,543</u>	<u>1,276,040</u>	<u>4,068,583</u>
Excess (deficiency) of receipts over (under) disbursements	(923,550)	(560,465)	(1,484,015)
Other financing sources (uses), net	<u>--</u>	<u>557,638</u>	<u>557,638</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(923,550)	(2,827)	(926,377)
Balances beginning of year	<u>2,767,546</u>	<u>762,326</u>	<u>3,529,872</u>
Balances end of year	<u>\$ 1,843,996</u>	<u>\$ 759,499</u>	<u>\$ 2,603,495</u>

See accompanying independent auditor's report.

<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
<u>Original</u>	<u>Final</u>	
\$ 741,012	\$ 741,012	\$ 14,884
188,848	188,848	(923)
217,154	217,154	14,340
13,500	14,970	3,214
43,795	47,064	23,440
221,198	231,213	10,960
825,359	856,301	(57,662)
137,256	192,866	86,887
<u>2,388,122</u>	<u>2,489,428</u>	<u>95,140</u>
175,223	175,223	16,621
326,221	663,421	200,632
442,699	697,445	55,457
517,815	1,548,999	842,624
135,245	1,308,947	514,188
28,030	28,030	--
<u>601,043</u>	<u>1,485,709</u>	<u>209,669</u>
<u>2,226,276</u>	<u>5,907,774</u>	<u>1,839,191</u>
161,846	(3,418,346)	1,934,331
<u>--</u>	<u>545,638</u>	<u>12,000</u>
161,846	(2,872,708)	1,946,331
<u>3,101,855</u>	<u>3,101,855</u>	<u>428,017</u>
<u>\$ 3,263,701</u>	<u>\$ 229,147</u>	<u>\$ 2,374,348</u>

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

June 30, 2010

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, two budget amendments increased budgeted disbursements by \$3,681,498. The budget amendments are 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, 2010

	Special Revenue Employee Benefits	Debt Service
Receipts:		
Property tax	\$ 77,316	\$ 27,678
Other City tax	1,636	543
Use of money and property	--	692
Total receipts	78,952	28,913
Disbursements:		
Operating:		
Public works	11,617	--
Culture and recreation	42,492	--
General government	14,741	--
Debt service	--	28,030
Total disbursements	68,850	28,030
Excess (deficiency) of receipts over (under) disbursements	10,102	883
Other financing sources (uses):		
Operating transfers out	--	(51,465)
Total other financing sources (uses)	--	(51,465)
Net change in cash balances	10,102	(50,582)
Cash balances beginning of year	97,755	142,211
Cash balances end of year	\$ 107,857	\$ 91,629
Cash Basis Fund Balances		
Reserved for debt service	\$ --	\$ 91,629
Unreserved:		
Special revenue fund	107,857	--
Capital projects fund	--	--
Total cash basis fund balances	\$ 107,857	\$ 91,629

See accompanying independent auditor's report.

<u>Capital Projects</u>	<u>Total</u>
\$ --	\$ 104,994
--	2,179
--	692
<u>--</u>	<u>107,865</u>
--	11,617
--	42,492
--	14,741
<u>--</u>	<u>28,030</u>
<u>--</u>	<u>96,880</u>
--	10,985
<u>(13,653)</u>	<u>(65,118)</u>
<u>(13,653)</u>	<u>(65,118)</u>
(13,653)	(54,133)
<u>--</u>	<u>239,966</u>
<u>\$(13,653)</u>	<u>\$ 185,833</u>
\$ --	\$ 91,629
--	107,857
<u>(13,653)</u>	<u>(13,653)</u>
<u>\$(13,653)</u>	<u>\$ 185,833</u>

CITY OF KALONA, IOWA
 SCHEDULE OF INDEBTEDNESS
 Year ended June 30, 2010

<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			
Revenue 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>
\$1,125,000	\$ --	\$ 60,000	\$ 1,065,000	\$ 43,030	\$ 3,586
<u>1,125,000</u>	<u>--</u>	<u>60,000</u>	<u>1,065,000</u>	<u>43,030</u>	<u>3,586</u>
193,000	--	29,000	164,000	5,790	404
856,000	--	46,000	810,000	25,680	1,997
404,000	--	22,000	382,000	12,120	942
<u>642,362</u>	<u>557,638</u>	<u>24,000</u>	<u>1,176,000</u>	<u>33,391</u>	<u>2,900</u>
<u>2,095,362</u>	<u>557,638</u>	<u>121,000</u>	<u>2,532,000</u>	<u>76,981</u>	<u>6,243</u>
<u>\$3,220,362</u>	<u>\$ 557,638</u>	<u>\$ 181,000</u>	<u>\$ 3,597,000</u>	<u>\$ 120,011</u>	<u>\$ 9,829</u>

CITY OF KALONA, IOWA
 BOND AND NOTE MATURITIES
 June 30, 2010

Year ending June 30,	General Obligation Capital Loan Notes Library Note Issued June 1, 2004	
	Interest Rate	Amount
2011	2.75%	\$ 60,000
2012	3.00	60,000
2013	3.25	65,000
2014	3.45	65,000
2015	3.60	65,000
2016-2020	3.75-4.05	380,000
2021-2025	4.15-4.55	<u>370,000</u>
		<u>\$1,065,000</u>

Year ending June 30,	State Revolving Funds			
	Sewer Revenue Capital Loan Notes			
	Issued February 13, 1995		Issued December 12, 2003	
	Interest Rate	Amount	Interest Rate	Amount
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	3.00	36,000	3.00	25,000
2016-2020		--	3.00	138,000
2021-2025		--	3.00	126,000
2026-2030		--		--
2031-2035		--		--
2036-2039		--		--
		<u>\$ 164,000</u>		<u>\$ 382,000</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%	\$ 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	53,000	3.00	28,000	142,000
3.00	292,000	3.00	155,000	585,000
3.00	267,000	3.00	184,000	577,000
	--	3.00	216,000	216,000
	--	3.00	253,000	253,000
	--	3.00	234,000	234,000
	<u>\$ 810,000</u>		<u>\$ 1,176,000</u>	<u>\$2,532,000</u>

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Receipts:			
Property tax	\$ 755,896	\$ 698,056	\$ 675,362
Tax increment financing collections	187,925	215,652	103,253
Other city tax	231,494	214,175	244,718
Licenses and permits	13,194	18,053	6,335
Use of money and property	63,930	49,743	75,555
Intergovernmental	242,173	353,212	371,898
Charges for service	120,790	86,906	92,198
Miscellaneous	<u>253,591</u>	<u>167,519</u>	<u>216,591</u>
Total	<u>\$ 1,868,993</u>	<u>\$ 1,803,316</u>	<u>\$ 1,785,910</u>
Disbursements:			
Operating:			
Public safety	\$ 158,602	\$ 156,819	\$ 167,840
Public works	462,789	185,787	395,722
Culture and recreation	641,988	457,115	502,739
Community and economic development	706,375	364,541	485,000
General government	794,759	144,508	399,324
Debt service	28,030	24,268	25,340
Capital projects	<u>--</u>	<u>10,992</u>	<u>--</u>
Total	<u>\$ 2,792,543</u>	<u>\$ 1,344,030</u>	<u>\$ 1,975,965</u>

See accompanying independent auditor's report.

<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 668,988	\$ 642,763	\$ 565,919
222,404	204,193	256,747
233,659	163,745	193,729
4,228	4,190	31,300
203,833	32,292	3,633
226,786	209,545	203,853
83,288	73,917	67,064
<u>64,000</u>	<u>16,970</u>	<u>40,876</u>
<u>\$ 1,707,186</u>	<u>\$ 1,347,615</u>	<u>\$ 1,363,121</u>
\$ 142,978	\$ 133,259	\$ 130,999
481,566	144,316	397,995
370,763	331,379	291,540
348,316	216,009	254,635
186,825	169,350	111,373
26,248	54,750	--
<u>--</u>	<u>66,566</u>	<u>1,246,982</u>
<u>\$ 1,556,696</u>	<u>\$ 1,115,629</u>	<u>\$ 2,433,524</u>

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, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 18, 2011. Our report expressed qualified 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 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, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

To the Honorable Mayor and
Members of the City Council

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 10-I-A to be a significant deficiency.

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, 2010 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.

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.

G. M. W. H. B. K. & W. P. C.

Atlantic, Iowa
January 18, 2011

CITY OF KALONA, IOWA

Schedule of Findings

Year ended June 30, 2010

PART I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

10-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.

OTHER MATTERS:

10-I-B Library Cash Drawer: During our audit we tested the reconciliation of the Library's cash drawer. We noted that the receipts recorded for various library charges did not agree with the cash on hand in the Library's cash drawer. The cash on hand exceeded the receipts by \$37.31. We also noted that deposits were not made on a regular basis.

Recommendation: We recommend that the cash on hand in the Library's cash drawer should be reconciled to the receipts and other activity recorded on a weekly basis, and make weekly deposits with the bank to improve the internal controls over the cash drawer.

Response: The cash drawer will be reconciled and receipts will be deposited weekly in the future.

Conclusion: Response accepted.

10-I-C Library Time Recording: The Library records its payroll time manually on time cards, whereas the rest of the City records its payroll time electronically.

Recommendation: The Library should record its time electronically, consistent with other City departments, to improve internal control over the recording of payroll. This will also improve the efficiency of the payroll system.

Response: The Library will record its payroll time electronically, consistent with other City departments.

Conclusion: Response accepted.

* * *

CITY OF KALONA, IOWA

Schedule of Findings

Year ended June 30, 2010

PART II: Other Findings Related to Statutory Reporting

10-II-A Certified Budget: Disbursements during the year ended June 30, 2010 did not exceed the amounts budgeted.

10-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.

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

10-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.

10-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.

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

10-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.

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

10-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. The expenditures should also be budgeted and reported as debt service disbursements.

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, 2010

PART II: Other Findings Related to Statutory Reporting - Continued

10-II-J Financial Condition: The Capital Projects Fund had a deficit balance of \$13,653 at June 30, 2010.

Recommendation: The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response: A transfer has been made to eliminate this deficit balance.

Conclusion: Response accepted.

10-II-K Capital Projects Fund: The City has not properly used the Capital Projects Fund to pay for long-term capital projects they incurred throughout the year.

Recommendation: The City should utilize the Capital Projects Fund for the various projects they incur throughout the year. These expenditures should be budgeted and reported as capital projects disbursements.

Response: We will use the Capital Projects fund in the future.

Conclusion: Response accepted.

* * *