

CITY OF KANAWHA

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

JUNE 30, 2011

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CITY OF KANAWHA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Terry Johnson	Mayor	Jan 2012
Mike Brooks	Council Member	Jan 2014
Nancy Litch	Council Member	Jan 2014
Christa Hanson	Council Member	Jan 2014
Michelle Wade	Council Member	Jan 2012
Ray Bassett	Council Member	Jan 2012
Sharon Grimm	City Clerk	July 2011
Earl Hill	Attorney	July 2011

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, 2011, 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, 2011, 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 September 13, 2011 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 on 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 25 and 26 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 conducted 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 seven years ended June 30, 2010 (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.

September 13, 2011

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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 4.2%, or \$22,548 from fiscal 2010 to fiscal 2011. Intergovernmental receipts decreased \$4,256, property tax receipts decreased \$8,366 and local option tax decreased \$17,619.
- Disbursements increased 2.1% or \$11,507 in fiscal 2011 from fiscal 2010. Debt service, public safety and public works disbursements increased \$1,353, \$8,846, \$8,783, respectively. Culture and recreation, and general government disbursements decreased \$2,672 and \$3,645, respectively.
- The City's total cash basis net assets increased 9.7%, or \$46,986 from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities decreased \$1,168 and the assets of the business type activities increased by \$48,154.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

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 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 statement for governmental funds is 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 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 a year ago, from \$264,850 to \$263,682. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Government Activities		
	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Receipts:		
Program receipts:		
Operating grants, contributions and restricted interest	\$ 108,809	113,065
General receipts:		
Property tax	334,442	342,808
Local option tax	47,666	65,285
Unrestricted interest	1,267	2,526
Other general receipts	20,262	11,310
Total receipts	<u>512,446</u>	<u>534,994</u>

Disbursements:		
Public safety	155,093	146,247
Public works	153,343	144,560
Culture and recreation	51,481	54,153
Community and economic development	575	1,733
General government	85,871	89,516
Debt service	117,461	116,108
Total disbursements	<u>563,824</u>	<u>552,317</u>
Change in cash basis net assets before other financing sources	<u>(51,378)</u>	<u>(17,323)</u>
Other financing sources (uses)		
Sale of assets	210	325
Transfers, net	<u>50,000</u>	<u>250,000</u>
Total other financing sources (uses)	<u>50,210</u>	<u>250,325</u>
Change in cash basis net assets	(1,168)	233,002
Cash basis net assets beginning of year	<u>264,850</u>	<u>31,848</u>
Cash basis net assets end of year	<u><u>263,682</u></u>	<u><u>264,850</u></u>

The City's total receipts for governmental activities decreased by 4.2%, or \$22,548. The total cost of all programs and services increased by \$11,507, or 2.1%, with no new programs added this year.

The cost of all governmental activities this year was \$563,824 compared to \$552,317 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 \$455,015 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 (\$108,809). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2011 from \$113,065 to \$108,809.

Changes in Cash Basis Net Assets of Business Type Activities

Receipts:	Year Ended June 30,	
Program receipts:	2011	2010
Charges for service:		
Water	\$ 115,523	113,437
Sewer	60,944	66,239
Total receipts	176,467	179,676
Disbursements:		
Water	31,293	47,138
Sewer	22,235	18,696
Debt Service	24,785	24,507
Capital projects		75,559
Total disbursements	78,313	165,900
Change in cash basis net assets before transfers	98,154	13,776
Transfers, net	(50,000)	(250,000)
Change in cash basis net assets	48,154	(236,224)
Cash basis net assets beginning of year		
	218,692	454,916
Cash basis net assets end of year	\$ 266,846	218,692

Total business type activities receipts for the fiscal year were \$176,467 compared to \$179,676 last year. Total disbursements, including debt service, for the fiscal year decreased by \$87,587 to a total of \$78,313. This significant decrease was due primarily to the cost of the water tower project in the prior year. The cash balance increased by \$48,154 during the fiscal year compared to a decrease of \$236,224 last year, due to transfers to the general fund in prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Kanawha completed the year, its governmental funds reported a combined fund balance of \$263,682, a decrease of \$1,168 from last year's total of \$264,850. 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 \$31,832 from the prior year to \$112,505. Net transfers of \$155,208 were received from other funds.
- The Road Use Tax Fund cash balance increased by \$25,833 to \$112,560 during the fiscal year. The City intends to use this money to upgrade the condition of all city roads.

- There was an increase in the Debt Service Fund cash balance of \$1,200 for an ending balance of \$958.
- The Employee Benefits Fund balance decreased by \$49,698 to \$19,112 during the fiscal year, due to a transfer out to pay for benefits that were paid from the General Fund in prior years.
- The Local Option Fund balance decreased by \$10,335 to \$18,347 during the fiscal year. \$53,929 was transferred to the General Fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$34,230 to \$203,289 during the fiscal year, due primarily to an increase in the sale of water and reductions in capital project payments from the prior year.
- The Sewer Fund cash balance increased by \$13,924 to \$57,008 during the fiscal year.
- There was no change in the Sewer Revenue Reserve cash balance. The balance remained at \$2,049.
- There was no change in the Sewer Improvement Fund cash balance. The balance remained at \$4,500.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget. The amended budget was approved on May 17, 2011 to provide for additional \$81,439 receipts and \$89,934 disbursements to provide for additional disbursements for the public safety and public works functions.

The City's receipts were \$96,679 less than budgeted. This was primarily due to the City not receiving as much as anticipated for use of money and property, other city tax, charges for services and miscellaneous revenues.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$608,000 in general obligation and revenue bonds, compared to \$721,000 at the end of the prior year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	2011	2010
General obligation bonds	\$ 560,000	650,000
Revenue notes	48,000	71,000
Total	\$ 608,000	721,000

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 \$560,000 is below its constitutional debt limit of approximately \$1,192,000.

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 2012 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 2012. Amounts available for appropriation in the operating budget are \$676,885, a decrease of 13.8% from the final 2011 budget. Budgeted disbursements are expected to decrease by \$84,237. The City has added no major new programs or initiatives to the 2012 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$4,798 by the close of 2012. 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, 2011

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs:						
Governmental activities:						
Public safety	\$ 155,093		24,623	(130,470)		(130,470)
Public works	153,343		68,867	(84,476)		(84,476)
Culture and recreation	51,481		15,319	(36,162)		(36,162)
Community and economic development	575			(575)		(575)
General government	85,871			(85,871)		(85,871)
Debt service	117,461			(117,461)		(117,461)
Total governmental activities	563,824		108,809	(455,015)		(455,015)
Business type activities:						
Water	31,293	115,523			84,230	84,230
Sewer	47,020	60,944			13,924	13,924
Total business type activities	78,313	176,467			98,154	98,154
Total	\$ 642,137	176,467	108,809	(455,015)	98,154	(356,861)
General Receipts:						
Property tax levied for:						
General purposes				\$ 156,995		156,995
Employee benefits and insurance				59,028		59,028
Debt service				118,419		118,419
Local option sales tax				47,666		47,666
Unrestricted interest on investments				1,267		1,267
Miscellaneous				20,262		20,262
Sale of assets				210		210
Transfers				50,000	(50,000)	
Total general receipts and transfers				453,847	(50,000)	403,847
Change in cash basis net assets				(1,168)	48,154	46,986
Cash basis net assets beginning of year				264,850	218,692	483,542
Cash basis net assets end of year				\$ 263,682	266,846	530,528
Cash Basis Net Assets						
Restricted:						
Expendable:						
Streets				\$ 112,560		112,560
Debt service				958	6,549	7,507
Other purposes				88,938		88,938
Unrestricted				61,226	260,297	321,523
Total cash basis net assets				\$ 263,682	266,846	530,528

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, 2011

	Special Revenue					Total
	General	Road Use Tax	Local Option	Employee Benefits	Debt Service	
Receipts:						
Property tax	\$ 156,995			59,028	118,419	334,442
Other city tax			47,666			47,666
Licenses and permits	370					370
Use of money and property	1,867					1,867
Intergovernmental	39,942	68,867				108,809
Miscellaneous	19,292					19,292
Total receipts	218,466	68,867	47,666	59,028	118,419	512,446
Disbursements:						
Operating:						
Public safety	131,996			23,097		155,093
Public works	89,258	43,034	3,830	17,221		153,343
Culture and recreation	49,063			2,418		51,481
Community and economic development	575					575
General government	71,160			14,711		85,871
Debt service					117,461	117,461
Total disbursements	342,052	43,034	3,830	57,447	117,461	563,824
Excess (deficiency) of receipts over (under) disbursements	(123,586)	25,833	43,836	1,581	958	(51,378)
Other financing sources (uses):						
Sale of assets	210					210
Operating transfers in	155,208				242	155,450
Operating transfers out			(54,171)	(51,279)		(105,450)
Total other financing sources (uses)	155,418		(54,171)	(51,279)	242	50,210
Net change in cash balances	31,832	25,833	(10,335)	(49,698)	1,200	(1,168)
Cash balances beginning of year	80,673	86,727	28,882	68,810	(242)	264,850
Cash balances end of year	\$ 112,505	112,560	18,547	19,112	958	263,682
Cash Basis Fund Balances						
Restricted for:						
Debt service					958	958
Streets		112,560				112,560
Other purposes			18,547	19,112		37,659
Unassigned	112,505					112,505
Total cash basis fund balances	\$ 112,505	112,560	18,547	19,112	958	263,682

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, 2011

	Enterprise Funds				Total
	Water	Sewer Rental	Sewer Revenue Reserve	Sewer Improvement	
Operating receipts:					
Charges for service	\$ 115,523	60,944			176,467
Total operating receipts	115,523	60,944			176,467
Operating disbursements:					
Business type activities	31,293	22,235			53,528
Total operating disbursements	31,293	22,235			53,528
Excess of operating receipts over operating disbursements	84,230	38,709			122,939
Non-operating (disbursements):					
Debt service		24,785			24,785
Net non-operating (disbursements)		24,785			24,785
Excess of receipts over disbursements	84,230	13,924			98,154
Operating transfers out	(50,000)				(50,000)
Net change in cash balances	34,230	13,924			48,154
Cash balance beginning of year	169,059	43,084	2,049	4,500	218,692
Cash balances end of year	\$ 203,289	57,008	2,049	4,500	266,846
Cash Basis Fund Balances					
Restricted for debt service			2,049	4,500	6,549
Unrestricted	\$ 203,289	57,008			260,297
Total cash basis fund balances	\$ 203,289	57,008	2,049	4,500	266,846

See notes to financial statements.

CITY OF KANAWHA

Notes to Financial Statements

June 30, 2011

(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 government 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 has 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, Hancock County Development Commission, Community Fire Board and Library Board.

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 the following categories/components:

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2011

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including City's Permanent Fund.

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 not meeting 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. 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 the road use tax allocation from the State of Iowa to be used 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 property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2011

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 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 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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

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. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2011

Assigned – Amounts the Council intends to use for specific purposes

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2011 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.

(3) **Bonds Payable**

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

Year Ending June 30,	Revenue Note		General Obligation Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
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	\$ 48,000	3,330	560,000	121,575	608,000	124,905

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2011

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.

(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 4.50% of their annual covered salary and the City is required to contribute 6.95% 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, 2011, 2010 and 2009 were \$11,147, \$10,408 and \$11,192 respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits(OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 3 active members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

The dental benefits are provided through a fully-insured plan with Delta Dental. Retirees pay the same premium for the dental benefits as active employees.

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2011

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$692 for single coverage for medical/prescription drug benefits and \$45 for single coverage and \$125 for family coverage for dental benefits. The same monthly premiums apply to retirees. For the year ended June 30, 2011 the City contributed \$26,855.

(6) 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 recognize as disbursements by the City until used or paid. The City's approximate liability for earned vacation to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2011</u>
Vacation	\$ <u>11,127</u>

This liability has been computed based on rates of pay as of June 30, 2011.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$6,420 during the year ended June 30, 2011.

(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.

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2011

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option	\$ 53,929
	Employee Benefits	51,279
	Enterprise:	
	Water	<u>50,000</u>
		155,208
Debt Service	Special Revenue:	
	Local Option	<u>242</u>
Total		<u>\$ 155,450</u>

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

(10) Subsequent Events

In July 2011, the City signed a new note with John Deere Credit for \$118,207 for a new loader/plow, and purchased a new police cruiser for \$28,495, with sale of old cruiser for \$20,000.

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, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 334,442		334,442	322,158	322,158	12,284
Other city tax	47,666		47,666	67,274	67,274	(19,608)
Licenses and permits	370		370	40	40	330
Use of money and property	1,867		1,867	2,000	17,160	(15,293)
Intergovernmental	108,809		108,809	109,283	109,283	(474)
Charges for services		176,467	176,467	192,000	192,000	(15,533)
Miscellaneous	19,292		19,292	11,398	77,677	(58,385)
Total receipts	512,446	176,467	688,913	704,153	785,592	(96,679)
Disbursements:						
Public safety	155,093		155,093	126,428	156,588	1,495
Public works	153,343		153,343	159,855	219,629	66,286
Culture and recreation	51,481		51,481	64,044	64,044	12,563
Community and economic development	575		575	2,000	2,000	1,425
General government	85,871		85,871	103,217	103,217	17,346
Debt service	117,461		117,461	117,461	117,461	
Business type activities		78,313	78,313	115,385	115,385	37,072
Total disbursements	563,824	78,313	642,137	688,390	778,324	136,187
Excess (deficiency) of receipts over (under) disbursements	(51,378)	98,154	46,776	15,763	7,268	39,508
Other financing sources, net	50,210	(50,000)	210			210
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,168)	48,154	46,986	15,763	7,268	39,718
Balances beginning of year	264,850	218,692	483,542	471,293	471,293	12,249
Balances end of year	\$ 263,682	266,846	530,528	487,056	478,561	51,967

See accompanying independent auditor's report.

City of Kanawha

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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, and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$89,934. The budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

City of Kanawha

Schedule of Indebtedness

Year ended June 30, 2011

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	15,000	15,000		848
General corporate purpose	5/1/2007	4.00 - 4.35	815,000	635,000	75,000	560,000	26,212
Total				650,000	90,000	560,000	27,060
Revenue bond:							
Sewer lagoon	12/30/1992	4.62%	\$ 242,000	55,000	18,000	37,000	1,380
Sewer	12/30/1992	4.37	73,000	16,000	5,000	11,000	405
Total				71,000	23,000	48,000	1,785

See accompanying independent auditor's report.

CITY OF KANAWHA

Bond and Note Maturities

June 30, 2011

GENERAL OBLIGATION NOTES		
Year Ending June 30,	General Corporate Purpose Issued October 1, 2000	
	Interest Rates	Amount
2012	4.000%	\$ 70,000
2013	4.000	50,000
2014	4.000	55,000
2015	4.100	55,000
2016	4.125	60,000
2017	4.150	65,000
2018	4.200	65,000
2019	4.300	70,000
2020	4.350	70,000
Total		\$ 560,000

REVENUE NOTES					
Year Ending June 30,	Sewer Lagoon Issued December 30, 1992		Sewer Issued December 30, 1992		Total
	Interest Rates	Amount	Interest Rates	Amount	
2012	4.62%	\$ 18,000	4.37%	\$ 5,000	23,000
2013	4.62	19,000	4.37	6,000	25,000
		\$ 37,000		\$ 11,000	48,000

See accompanying independent auditor's report.

CITY OF KANAWHA

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

For the Last Eight Years

	2011	2010	2009	2008	2007	2006	2005	2004
Receipts:								
Property tax	\$ 334,442	342,808	309,714	277,321	230,406	222,467	220,944	204,334
Other city tax	47,666	65,285	59,367	46,952	49,065	51,972	44,957	46,235
Licenses and permits	370	450	450	260	265	678	1,015	570
Use of money and property	1,867	2,526	4,495	4,992	3,008	4,266	2,961	2,461
Intergovernmental	108,809	113,065	133,893	350,451	64,078	125,571	74,199	110,985
Charges for service				310	2,903	290	2,467	16,207
Miscellaneous	19,292	10,860	8,305	7,284	70,946	55,921	106,000	67,235
Total	\$ 512,446	534,994	516,224	687,570	420,671	461,165	452,543	448,027
Disbursements:								
Operating:								
Public safety	\$ 155,093	146,247	118,398	136,592	115,850	181,550	110,432	163,609
Public works	153,343	144,560	137,752	118,378	105,846	134,784	145,840	109,102
Culture and recreation	51,481	54,153	45,061	53,996	54,464	55,068	61,138	59,911
Community and economic development	575	1,733	701	6,033	1,733	2,860		2,805
General government	85,871	89,516	83,867	93,405	83,732	79,402	69,823	56,736
Debt service	117,461	116,108	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	\$ 563,824	552,317	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, 2011

Rates and Customer Usage:

At June 30, 2011 the City had approximately 350 customers using the wastewater treatment system. At June 30, 2011 the City's sewer charges were 65% of the customer charge for water usage with minimum charge of \$11.17. Water usage is charged out at \$6.55 per 1000 gallons used in excess of 2,625 gallons with a minimum charge of \$17.19 per building.

Insurance Coverage:

Coverage	Limit	Deductible	Coinsurance
Municipal building	\$1,081,200	\$ 500	90%
Municipal building contents	106,080	500	90
Old city hall	73,440	500	90
Old city hall contents	10,608	500	90
Water tower	510,000	500	90
Water building and equipment	1,607	500	90
Sewage lift station equipment	1,530	500	90
Sewage lift station	84,915	500	90
Fences and lighting	131,580	500	90
Shelter house/concession stand	30,294	500	90
Shelter house-picnic	27,540	500	90
Shelter house contents	19,100	500	90
Playground equipment	32,640	500	90
Pole Shelter	7,446	500	90
Water treatment facility	612,000	500	90
Water treatment building contents	13,260	500	90
Fire department	477,360	500	90
Fire department contents	115,107	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, 2011, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated September 13, 2011. 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 an 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 was not designed to 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 material weaknesses.

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 misstatement of the City of Kanawha's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in Part I of the accompanying Schedule of Findings as items I-A-11 and I-B-11 to be a material weaknesses.

A significant deficiency is a deficiency, or a 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.

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. However, we noted certain immaterial instances of non-compliance or other matters which 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, 2011 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, and 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.

September 13, 2011

Renner & Birchem, P.C.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2011

Part I: Findings Related to the Financial Statements:

Internal Control Deficiencies:

I-A-11 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-11 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.

Instances of Non – Compliance:

No matters were noted.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2011

Part II: Other Findings Related to Required Statutory Reporting:

II-A-11 Certified Budget – Disbursements during the year ended June 30, 2011, did not exceed amounts budgeted.

II-B-11 Questionable Disbursements – Certain disbursement we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. The disbursement is detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Red Rooster	Lunch for county deputies	\$ 33

According to the opinion, it is possible for such a disbursement to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by the disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

II-C-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-11 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	\$ 6,420

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Police Chief may represent a conflict of interest since a competitive bidding process was not utilized for all transactions and total of the transactions was in excess of \$1,500.

Recommendation – The City should use a competitive bidding process when practicable.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2011

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

Response – The transactions were normal expenses. A competitive bidding process is not always practical, however, we will endeavor to competitively bid the work when practicable in the future.

Conclusion – Response accepted.

II-E-11 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.

II-F-11 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not. Council minutes were not all signed by the mayor and clerk.

Recommendation – The mayor and clerk should sign minutes prior to posting them in the minute book.

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

Conclusion – Response accepted.

II-G-11 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-H-11 Revenue Notes – The revenue note provisions continue to be not complied with during the year ended June 30, 2011. 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.