

CITY OF KANAWHA

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

JUNE 30, 2012

## Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	4-5
Management's Discussion and Analysis	6-12
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 14
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 15
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 16
Notes to Financial Statements	17-23
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances-Budget and Actual (Cash Basis)-All Governmental Funds and Proprietary Funds	25
Notes to Other Information-Budgetary Reporting	26
Supplementary Information:	<u>Schedule</u>
Schedule of Indebtedness	1 28
Bond and Note Maturities	2 29
Schedule of Receipts By Source and Disbursements By Function	
All Governmental Funds	3 30
Sewer Revenue Capital Note Information	4 31
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 <u>Government Auditing Standards</u>	32-33
Schedule of Findings	34-36

CITY OF KANAWHA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
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 2012
Earl Hill	Attorney	July 2012
(After January 2012)		
Terry Johnson	Mayor	Jan 2016
Mike Brooks	Council Member	Jan 2014
Nancy Litch	Council Member	Jan 2014
Christa Hanson	Council Member	Jan 2014
Sherrie Johnson	Council Member	Jan 2016
Ray Bassett	Council Member	Jan 2016
Sharon Grimm	City Clerk	July 2012
Earl Hill	Attorney	July 2012



DENNIS L. RENNER, CPA  
MICHAEL J. BIRCHEM, CPA, CFP®

109 SECOND STREET N.E. • MASON CITY, IOWA 50401  
4 MAIN AVENUE SOUTH • BRITT, IOWA 50423  
226 WEST 4TH STREET • ST. ANSGAR, IOWA 50472

(641) 423-7155  
(641) 843-3729  
(641) 736-4324  
(866) 259-3667

## 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, 2012, 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 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, 2012, 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 28, 2012 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.

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 eight years ended June 30, 2011 (which are not presented herein) and expressed unqualified 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Kanawha's basic financial statements. Management's Discussion and Analysis and budgetary comparison information on pages 6 through 12 and 25 through 26 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

September 28, 2012



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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 5.8%, or \$29,742 from fiscal 2011 to fiscal 2012. Property tax receipts decreased \$21,350 and other general receipts decreased \$10,858.
- Disbursements decreased 6.4% or \$36,259 in fiscal 2012 from fiscal 2011. Debt service, public safety and public works disbursements decreased \$23,848, \$5,089, \$28,174, respectively. Culture and recreation, and general government disbursements increased \$1,951 and \$18,879, respectively.
- The City's total cash basis net assets increased 13.6%, or \$71,980 from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased \$30,241 and the assets of the business type activities increased by \$41,739.

### 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 financial 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.

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

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, readers 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 increased from a year ago, from \$263,682 to \$293,923. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

<b>Changes in Cash Basis Net Assets of Government Activities</b>		
Receipts:	Year Ended June 30,	
	2012	2011
Program receipts:		
Operating grants, contributions and restricted interest	\$ 104,052	108,809
General receipts:		
Property tax	313,092	334,442
Local option tax	55,000	47,666
Unrestricted interest	1,156	1,267
Other general receipts	9,404	20,262
Total receipts	482,704	512,446

Disbursements:		
Public safety	150,004	155,093
Public works	125,169	153,343
Culture and recreation	53,432	51,481
Community and economic development	1,597	575
General government	103,750	85,871
Debt service	93,613	117,461
Total disbursements	<u>527,565</u>	<u>563,824</u>
Change in cash basis net assets before other financing sources	<u>(44,861)</u>	<u>(51,378)</u>
Other financing sources (uses)		
Sale of assets	20,102	210
Transfers, net	<u>55,000</u>	<u>50,000</u>
Total other financing sources (uses)	<u>75,102</u>	<u>50,210</u>
Change in cash basis net assets	30,241	(1,168)
Cash basis net assets beginning of year	<u>263,682</u>	<u>264,850</u>
Cash basis net assets end of year	<u><u>293,923</u></u>	<u><u>263,682</u></u>

The City's total receipts for governmental activities decreased by 5.8%, or \$29,742. The total cost of all programs and services decreased by \$36,259, or 6.4%, with no new programs added this year.

The cost of all governmental activities this year was \$527,565 compared to \$563,824 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 \$423,513 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 (\$104,052). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2012 from \$108,809 to \$104,052.

---

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

---

Receipts:	Year Ended June 30,	
Program receipts:	2012	2011
Charges for service:		
Water	\$ 120,863	115,523
Sewer	70,281	60,944
Total receipts	<u>191,144</u>	<u>176,467</u>
 Disbursements:		
Water	46,445	31,293
Sewer	23,841	22,235
Debt Service	24,119	24,785
Total disbursements	<u>94,405</u>	<u>78,313</u>
Change in cash basis net assets before transfers	96,739	98,154
Transfers, net	<u>(55,000)</u>	<u>(50,000)</u>
Change in cash basis net assets	41,739	48,154
 Cash basis net assets beginning of year	<u>266,846</u>	<u>218,692</u>
Cash basis net assets end of year	<u>\$ 308,585</u>	<u>266,846</u>

Total business type activities receipts for the fiscal year were \$191,144 compared to \$176,467 last year. Total disbursements, including debt service, for the fiscal year increased by \$16,092 to a total of \$94,405. The cash balance increased by \$41,739 during the fiscal year compared to an increase of \$48,154 last year.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Kanawha completed the year, its governmental funds reported a combined fund balance of \$293,923, an increase of \$30,241 from last year's total of \$263,682. 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 \$20,798 from the prior year to \$133,303. Net transfers of \$110,551 were received from other funds.
- The Road Use Tax Fund cash balance increased by \$12,825 to \$125,385 during the fiscal year. The City intends to use this money to upgrade the condition of all city roads.
- There was a decrease in the Debt Service Fund cash balance of \$278 for an ending balance of \$680.

- The Employee Benefits Fund balance decreased by \$104 to \$19,008 during the fiscal year.
- The Local Option Fund balance decreased by \$104 to \$15,547 during the fiscal year. \$55,551 was transferred to the General Fund.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$19,418 to \$222,707 during the fiscal year.
- The Sewer Fund cash balance increased by \$22,321 to \$79,329 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**

The City did not amend its budget during the fiscal year June 30, 2012.

**DEBT ADMINISTRATION**

At June 30, 2012, the City had \$515,000 in general obligation and revenue bonds, compared to \$608,000 at the end of the prior year, as shown below.

	<b>Outstanding Debt at Year-End</b>	
	June 30,	
	2012	2011
General obligation bonds	\$ 490,000	560,000
Revenue notes	25,000	48,000
Total	<u>\$ 515,000</u>	<u>608,000</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$490,000 is below its constitutional debt limit of approximately \$1,196,000.

## **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 2013 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 2013. Amounts available for appropriation in the operating budget are \$660,332, a decrease of 2.4% from the final 2012 budget. Budgeted disbursements are expected to decrease by \$53,217. The City has added no major new programs or initiatives to the 2013 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$19,462 by the close of 2013. 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, 2012

	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
<b>Functions / Programs:</b>						
Governmental activities:						
Public safety	\$ 150,004		27,938	(122,066)		(122,066)
Public works	125,169		61,943	(63,226)		(63,226)
Culture and recreation	53,432		14,171	(39,261)		(39,261)
Community and economic development	1,597			(1,597)		(1,597)
General government	103,750			(103,750)		(103,750)
Debt service	93,613			(93,613)		(93,613)
Total governmental activities	527,565		104,052	(423,513)		(423,513)
Business type activities:						
Water	46,445	120,863			74,418	74,418
Sewer	47,960	70,281			22,321	22,321
Total business type activities	94,405	191,144			96,739	96,739
Total	\$ 621,970	191,144	104,052	(423,513)	96,739	(326,774)
<b>General Receipts:</b>						
Property tax levied for:						
General purposes				\$ 157,198		157,198
Employee benefits and insurance				62,559		62,559
Debt service				93,335		93,335
Local option sales tax				55,000		55,000
Unrestricted interest on investments				1,156		1,156
Miscellaneous				9,404		9,404
Sale of assets				20,102		20,102
Transfers				55,000	(55,000)	
Total general receipts and transfers				453,754	(55,000)	398,754
Change in cash basis net assets				30,241	41,739	71,980
Cash basis net assets beginning of year				263,682	266,846	530,528
Cash basis net assets end of year				\$ 293,923	308,585	602,508
<b>Cash Basis Net Assets</b>						
Restricted:						
Expendable:						
Streets				\$ 125,385		125,385
Debt service				680	6,549	7,229
Other purposes				34,555		34,555
Unrestricted				133,303	302,036	435,339
Total cash basis net assets				\$ 293,923	308,585	602,508

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, 2012

	Special Revenue					Total
	General	Road Use Tax	Local Option	Employee Benefits	Debt Service	
<b>Receipts:</b>						
Property tax	\$ 157,198			62,559	93,335	313,092
Other city tax			55,000			55,000
Licenses and permits	740					740
Use of money and property	1,531					1,531
Intergovernmental	42,109	61,943				104,052
Miscellaneous	8,289					8,289
<b>Total receipts</b>	<b>209,867</b>	<b>61,943</b>	<b>55,000</b>	<b>62,559</b>	<b>93,335</b>	<b>482,704</b>
<b>Disbursements:</b>						
<b>Operating:</b>						
Public safety	125,216			24,788		150,004
Public works	54,714	49,118	2,449	18,888		125,169
Culture and recreation	50,922			2,510		53,432
Community and economic development	1,597					1,597
General government	87,273			16,477		103,750
Debt service					93,613	93,613
<b>Total disbursements</b>	<b>319,722</b>	<b>49,118</b>	<b>2,449</b>	<b>62,663</b>	<b>93,613</b>	<b>527,565</b>
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<b>(109,855)</b>	<b>12,825</b>	<b>52,551</b>	<b>(104)</b>	<b>(278)</b>	<b>(44,861)</b>
<b>Other financing sources (uses):</b>						
Sale of assets	20,102					20,102
Operating transfers in	110,551					110,551
Operating transfers out			(55,551)			(55,551)
<b>Total other financing sources (uses)</b>	<b>130,653</b>		<b>(55,551)</b>			<b>75,102</b>
<b>Net change in cash balances</b>	<b>20,798</b>	<b>12,825</b>	<b>(3,000)</b>	<b>(104)</b>	<b>(278)</b>	<b>30,241</b>
<b>Cash balances beginning of year</b>	<b>112,505</b>	<b>112,560</b>	<b>18,547</b>	<b>19,112</b>	<b>958</b>	<b>263,682</b>
<b>Cash balances end of year</b>	<b>\$ 133,303</b>	<b>125,385</b>	<b>15,547</b>	<b>19,008</b>	<b>680</b>	<b>293,923</b>
<b>Cash Basis Fund Balances</b>						
<b>Restricted for:</b>						
Debt service					680	680
Streets		125,385				125,385
Other purposes			15,547	19,008		34,555
<b>Unassigned</b>	<b>\$ 133,303</b>					<b>133,303</b>
<b>Total cash basis fund balances</b>	<b>\$ 133,303</b>	<b>125,385</b>	<b>15,547</b>	<b>19,008</b>	<b>680</b>	<b>293,923</b>

See notes to financial statements.

## City of Kanawha

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

As of and for the year ended June 30, 2012

	Enterprise Funds				Total
	Water	Sewer Rental	Sewer Revenue Reserve	Sewer Improvement	
Operating receipts:					
Charges for service	\$ 120,863	70,281			191,144
Total operating receipts	120,863	70,281			191,144
Operating disbursements:					
Business type activities	46,445	23,841			70,286
Total operating disbursements	46,445	23,841			70,286
Excess of operating receipts over operating disbursements	74,418	46,440			120,858
Non-operating (disbursements):					
Debt service		(24,119)			(24,119)
Net non-operating (disbursements)		(24,119)			(24,119)
Excess of receipts over disbursements	74,418	22,321			96,739
Operating transfers out	(55,000)				(55,000)
Net change in cash balances	19,418	22,321			41,739
Cash balance beginning of year	203,289	57,008	2,049	4,500	266,846
Cash balances end of year	\$ 222,707	79,329	2,049	4,500	308,585
<b>Cash Basis Fund Balances</b>					
Restricted for debt service			2,049	4,500	6,549
Unrestricted	\$ 222,707	79,329			302,036
Total cash basis fund balances	\$ 222,707	79,329	2,049	4,500	308,585

See notes to financial statements.

# CITY OF KANAWHA

## Notes to Financial Statements

June 30, 2012

### (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 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, 2012

*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.

June 30, 2012

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, 2012

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

**E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Other Information.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2012 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
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
<b>Total</b>	<b>\$ 25,000</b>	<b>1,140</b>	<b>490,000</b>	<b>98,362</b>	<b>515,000</b>	<b>99,502</b>

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2012

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 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012, 2011 and 2010 were \$12,259, \$11,147 and \$10,408 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, 2012

**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 \$766 for single coverage for medical/prescription drug benefits and \$46 for single coverage and \$129 for family coverage for dental benefits. The same monthly premiums apply to retirees. For the year ended June 30, 2012 the City contributed \$29,838.

**(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, 2012, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2012</u>
Vacation	\$ <u>5,804</u>

This liability has been computed based on rates of pay as of June 30, 2012.

**(7) Leases**

The City of Kanawha has entered into a lease purchase agreement to lease a loader/plow. The following is a schedule of the future minimum lease payments and the present value of net minimum lease payments under the agreement in effect at June 30, 2012.

<u>Year Ending</u>	<u>Loader/Plow</u>
2013	\$ 16,863
2014	16,863
2015	16,863
2016	16,863
2017	16,863
2018	<u>16,863</u>
Total	101,178
Less amount representing interest	<u>986</u>
Present value of minimum net lease payments	\$ <u>100,192</u>

CITY OF KANAWHA

Notes to Financial Statements (continued)

June 30, 2012

**(8) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$7,787 during the year ended June 30, 2012.

**(9) 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.

**(10) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option	\$ 55,551
	Enterprise:	
	Water	<u>55,000</u>
Total		\$ <u>110,551</u>

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

OTHER 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

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts	Final to Total Variance
<b>Receipts:</b>					
Property tax	\$ 313,092		313,092	305,801	7,291
Other city tax	55,000		55,000	62,789	(7,789)
Licenses and permits	740		740	40	700
Use of money and property	1,531		1,531	2,025	(494)
Intergovernmental	104,052		104,052	112,504	(8,452)
Charges for services		191,144	191,144	182,600	8,544
Miscellaneous	8,289		8,289	11,126	(2,837)
<b>Total receipts</b>	<b>482,704</b>	<b>191,144</b>	<b>673,848</b>	<b>676,885</b>	<b>(3,037)</b>
<b>Disbursements:</b>					
Public safety	150,004		150,004	155,379	5,375
Public works	125,169		125,169	139,704	14,535
Culture and recreation	53,432		53,432	67,876	14,444
Community and economic development	1,597		1,597	2,000	403
General government	103,750		103,750	110,794	7,044
Debt service	93,613		93,613	93,613	
Business type activities		94,405	94,405	124,721	30,316
<b>Total disbursements</b>	<b>527,565</b>	<b>94,405</b>	<b>621,970</b>	<b>694,087</b>	<b>72,117</b>
Excess (deficiency) of receipts over (under) disbursements	(44,861)	96,739	51,878	(17,202)	69,080
Other financing sources, net	75,102	(55,000)	20,102	22,000	(1,898)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	30,241	41,739	71,980	4,798	67,182
Balances beginning of year	263,682	266,846	530,528	457,750	72,778
Balances end of year	\$ 293,923	308,585	602,508	462,548	139,960

See accompanying independent auditor's report.

City of Kanawha

Notes to Other Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented 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. The City did not amend the budget during the year.

SUPPLEMENTARY INFORMATION

## City of Kanawha

## Schedule of Indebtedness

Year ended June 30, 2012

<b>Obligation</b>	<b>Date of Issue</b>	<b>Rate of Interest</b>	<b>Amount Originally Issued</b>	<b>Balance Beginning of Year</b>	<b>Redeemed During Year</b>	<b>Balance End of Year</b>	<b>Interest Paid</b>
<b>General obligation bonds:</b>							
General corporate purpose	5/1/2007	4.00 - 4.35%	\$ 815,000	560,000	70,000	490,000	23,213
Total				560,000	70,000	490,000	23,213
<b>Revenue bond:</b>							
Sewer lagoon	12/30/1992	4.62%	\$ 242,000	37,000	18,000	19,000	840
Sewer	12/30/1992	4.37	73,000	11,000	5,000	6,000	255
Total				48,000	23,000	25,000	1,095

See accompanying independent auditor's report.

## CITY OF KANAWHA

## Bond and Note Maturities

June 30, 2012

GENERAL OBLIGATION NOTES		
General Corporate Purpose Issued October 1, 2000		
Year Ending June 30,	Interest Rates	Amount
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
<b>Total</b>		<b>\$ 490,000</b>

REVENUE NOTES					
Year Ending June 30,	Sewer Lagoon Issued December 30, 1992		Sewer Issued December 30, 1992		Total
	Interest Rates	Amount	Interest Rates	Amount	
2013	4.62%	\$ 19,000	4.37%	\$ 6,000	25,000
		<b>\$ 19,000</b>		<b>\$ 6,000</b>	<b>25,000</b>

See accompanying independent auditor's report.

## CITY OF KANAWHA

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

For the Last Nine Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Receipts:</b>									
Property tax	\$ 313,092	334,442	342,808	309,714	277,321	230,406	222,467	220,944	204,334
Other city tax	55,000	47,666	65,285	59,367	46,952	49,065	51,972	44,957	46,235
Licenses and permits	740	370	450	450	260	265	678	1,015	570
Use of money and property	1,531	1,867	2,526	4,495	4,992	3,008	4,266	2,961	2,461
Intergovernmental	104,052	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	8,289	19,292	10,860	8,305	7,284	70,946	55,921	106,000	67,235
<b>Total</b>	<b>\$ 482,704</b>	<b>512,446</b>	<b>534,994</b>	<b>516,224</b>	<b>687,570</b>	<b>420,671</b>	<b>461,165</b>	<b>452,543</b>	<b>448,027</b>
<b>Disbursements:</b>									
<b>Operating:</b>									
Public safety	\$ 150,004	155,093	146,247	118,398	136,592	115,850	181,550	110,432	163,609
Public works	125,169	153,343	144,560	137,752	118,378	105,846	134,784	145,840	109,102
Culture and recreation	53,432	51,481	54,153	45,061	53,996	54,464	55,068	61,138	59,911
Community and economic development	1,597	575	1,733	701	6,033	1,733	2,860		2,805
General government	103,750	85,871	89,516	83,867	93,405	83,732	79,402	69,823	56,736
Debt service	93,613	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	
<b>Total</b>	<b>\$ 527,565</b>	<b>563,824</b>	<b>552,317</b>	<b>516,918</b>	<b>969,188</b>	<b>1,091,779</b>	<b>542,220</b>	<b>473,308</b>	<b>460,198</b>

See accompanying independent auditor's report.

## Sewer Revenue Capital Note Information

June 30, 2012

## Rates and Customer Usage:

At June 30, 2012 the City had approximately 350 customers using the wastewater treatment system. At June 30, 2012 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	\$1,105,000	\$ 500	90%
Municipal building contents	108,202	500	90
Old city hall	74,909	500	90
Old city hall contents	10,820	500	90
Water tower	550,000	500	90
Water building and equipment	1,639	500	90
Sewage lift station equipment	1,561	500	90
Sewage lift station	86,613	500	90
Fences and lighting	134,212	500	90
Shelter house/concession stand	30,900	500	90
Shelter house-picnic	28,091	500	90
Shelter house contents	19,482	500	90
Playground equipment	33,293	500	90
Pole Shelter	7,595	500	90
Water treatment facility	640,000	500	90
Water treatment building contents	13,525	500	90
Fire department	490,000	500	90
Fire department contents	117,410	500	90
Mobile equipment	actual cash value	250	100
Liability-each occurrence	1,000,000		
Vehicles	actual cash value	250	



DENNIS L. RENNER, CPA  
MICHAEL J. BIRCHEM, CPA, CFP®

109 SECOND STREET N.E. • MASON CITY, IOWA 50401  
4 MAIN AVENUE SOUTH • BRITT, IOWA 50423  
226 WEST 4TH STREET • ST. ANSGAR, IOWA 50472

(641) 423-7155  
(641) 843-3729  
(641) 736-4324  
(866) 259-3667

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, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated September 28, 2012. 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

The management of City of Kanawha is responsible for establishing and maintaining effective 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-12 and I-B-12 to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kanawha's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. 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, 2012 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 28, 2012

  
Renner & Birchem, P.C.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2012

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

**Internal Control Deficiencies:**

I-A-12 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-12 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, 2012

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

- II-A-12 Certified Budget – Disbursements during the year ended June 30, 2012, did not exceed amounts budgeted.
- II-B-12 Questionable Disbursements – We noted no disbursements that do not meet the requirements of public purpose as defined in Attorney General’s opinion dated April 25, 1979.
- II-C-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-12 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mark Hennigar, Police, Hennigar’s Air Care	Repairs	\$ 2,287
Mark Hennigar, Police, Hennigar’s Air Care	Replace Light Fixtures, Per Bid	\$ 5,500

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. The light fixture replacement was bid, with Hennigar the only bid received.

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

Response – The transactions not bid 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-12 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

City of Kanawha  
Schedule of Findings  
Year Ended June 30, 2012

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

- II-F-12 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not.
- II-G-12 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-12 Revenue Notes – The revenue note provisions continue to be not complied with during the year ended June 30, 2012. 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.