CITY OF KALONA, IOWA

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

JUNE 30, 2013

CITY OF KALONA, IOWA
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CITY OF KALONA, IOWA
OFFICIALS
June 30, 2013

Name	Title	Term Expires
Ken Herington	Mayor	January, 2017
Jenelle Bender	Council Member	January, 2017
David Bentley (Resigned, August, 2013)	Council Member	
Greg Schmidt	Council Member	January, 2017
Mark Robe	Council Member	January, 2014
Craig Spitzer	Council Member	January, 2014
Joe Schmidt (Appointed, September, 2013)	Council Member	January, 2014
Ryan Schlabaugh	City Administrator	Indefinite
Karen Christner	City Clerk	Indefinite

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

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

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DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Kalona, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

City of Kalona's Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Basis for Qualified Opinion on the Aggregate Remaining Fund Information

The financial statements do not include financial data for the City's legally separate component units, Kalona Library Foundation and Friends of the Kalona Library. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the cash basis net position, receipts and disbursements of the aggregate remaining fund information would have increased as summarized in Note 2.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on the Aggregate Remaining Fund Information" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate remaining fund information of the City of Kalona, Iowa, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Kalona, Iowa, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Supplementary and Other Information

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise City of Kalona's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the seven years ended June 30, 2012 (none of which are presented herein) and expressed qualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the year ended June 30, 2005 (none of which are presented herein), were audited by other auditors whose report expressed qualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements.

To the Honorable Mayor and
Members of the City Council

The supplementary information included in page 1 and pages 20 through 22, 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 the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, budgetary comparison information, on pages 18 through 19 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 3, 2013 on our consideration of the City of Kalona's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Kalona's internal control over financial reporting and compliance.

Grimewood, Ben, Kyhnn & Co. P.C.

Atlantic, Iowa
December 3, 2013

CITY OF KALONA, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION

As of and for the year ended June 30, 2013

		Program Receipts	
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	$ 164,143	$ 12,391	$ --
Public works	315,146	100	226,295
Culture and recreation	572,556	112,928	42,546
Community and economic development	444,609	--	--
General government	160,748	4,698	--
Debt service	433,923	--	69
Total governmental activities	2,091,125	130,117	268,910
Business type activities:			
Water	307,793	327,296	--
Sewer	355,137	316,812	--
Nonmajor	50,974	97,581	--
Total business type activities	713,904	741,689	--
Total	$ 2,805,029	$ 871,806	$ 268,910
General Receipts and Transfers:			
Property and other city tax levied for:			
General purposes			
Debt service			
Tax increment financing			
Local option sales tax			
Grants and contributions not restricted to a specific purpose			
Unrestricted interest on investments			
Miscellaneous			
Transfers			
Total general receipts and transfers			
Change in cash basis net position			
Cash basis net position beginning of year			
Cash basis net position end of year			

(continued next page)

Program Receipts	Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
$ --	$(151,752)	$ --	$(151,752)
--	(88,751)	--	(88,751)
--	(417,082)	--	(417,082)
--	(444,609)	--	(444,609)
232,908	76,858	--	76,858
--	(433,854)	--	(433,854)
232,908	(1,459,190)	--	(1,459,190)
--	--	19,503	19,503
--	--	(38,325)	(38,325)
--	--	46,607	46,607
--	--	27,785	27,785
$ 232,908	(1,459,190)	27,785	(1,431,405)
	779,371	--	779,371
	10,384	--	10,384
	228,218	--	228,218
	231,603	--	231,603
	144,072	--	144,072
	15,640	1,665	17,305
	28,267	19,811	48,078
	39,600	(39,600)	--
	1,477,155	(18,124)	1,459,031
	17,965	9,661	27,626
	1,654,174	928,329	2,582,503
	$ 1,672,139	$ 937,990	$ 2,610,129

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

As of and for the year ended June 30, 2013

		Program Receipts	
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest
Cash Basis Net Position			
Restricted:			
Nonexpendable:			
Cemetery perpetual care			
Expendable:			
Streets			
Urban renewal projects			
Debt service			
Other purposes			
Unrestricted			
Total cash basis net position			

The accompanying notes are an integral part of these statements.

Program Receipts	Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
	$ 93,490	$ --	$ 93,490
	140,320	--	140,320
	99,090	--	99,090
	90,346	--	90,346
	218,418	--	218,418
	1,030,475	937,990	1,968,465
	$ 1,672,139	$ 937,990	$ 2,610,129

CITY OF KALONA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2013

	General	Special Revenue Urban Renewal Tax Increment
Receipts:		
Property tax	$ 703,819	$ --
Tax increment financing	--	228,218
Other city tax	12,928	--
Licenses and permits	14,626	--
Use of money and property	27,758	--
Intergovernmental	--	--
Charges for service	119,707	--
Miscellaneous	431,458	--
Total receipts	1,310,296	228,218
Disbursements:		
Operating:		
Public safety	164,143	--
Public works	123,221	--
Culture and recreation	462,315	--
Community and economic development	13,312	431,297
General government	150,173	--
Debt service	--	--
Total disbursements	913,164	431,297
Excess (deficiency) of receipts over (under) disbursements	397,132	(203,079)
Other financing sources (uses):		
Operating transfers in	16,927	--
Operating transfers out	(285,480)	(8,000)
Total other financing sources (uses)	(268,553)	(8,000)
Net change in cash balances	128,579	(211,079)
Cash balances beginning of year	995,386	310,169
Cash balances end of year	$ 1,123,965	$ 99,090

(continued next page)

Special Revenue			Special Revenue	
Local Option Sales	Road Use Tax	Debt Service	Employee Benefits Nonmajor	Total
$ --	$ --	$ 10,213	$ 61,491	$ 775,523
--	--	--	--	228,218
231,603	--	171	1,133	245,835
--	--	--	--	14,626
--	--	70	--	27,828
--	226,295	--	--	226,295
--	--	--	--	119,707
--	--	--	--	431,458
231,603	226,295	10,454	62,624	2,069,490
--	--	--	--	164,143
--	179,461	--	12,464	315,146
65,694	--	--	44,547	572,556
--	--	--	--	444,609
--	--	--	10,575	160,748
--	--	433,923	--	433,923
65,694	179,461	433,923	67,586	2,091,125
165,909	46,834	(423,469)	(4,962)	(21,635)
--	--	423,600	--	440,527
(98,520)	--	(8,927)	--	(400,927)
(98,520)	--	414,673	--	39,600
67,389	46,834	(8,796)	(4,962)	17,965
107,069	93,486	99,142	48,922	1,654,174
$ 174,458	$ 140,320	$ 90,346	$ 43,960	$ 1,672,139

CITY OF KALONA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES - Continued
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2013

		Special Revenue
	General	Urban Renewal Tax Increment
Cash Basis Fund Balances		
Nonspendable - Cemetery perpetual care	$ 93,490	$ --
Restricted:		
Streets	--	--
Urban renewal purposes	--	99,090
Debt service	--	--
Other purposes	--	--
Unassigned	1,030,475	--
Total cash basis net assets	$ 1,123,965	$ 99,090

The accompanying notes are an integral part of these statements.

Special Revenue			Special Revenue	
Local Option Sales	Road Use Tax	Debt Service	Employee Benefits Nonmajor	Total
$ --	$ --	$ --	$ --	$ 93,490
--	140,320	--	--	140,320
--	--	--	--	99,090
--	--	90,346	--	90,346
174,458	--	--	43,960	218,418
--	--	--	--	1,030,475
$ 174,458	$ 140,320	$ 90,346	$ 43,960	$ 1,672,139

CITY OF KALONA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the year ended June 30, 2013

	Enterprise Funds			
	Water	Sewer	Garbage	Total
Operating receipts:				
License and permits	$ 1,500	$ 1,250	$ --	$ 2,750
Charges for services	325,796	315,562	97,581	738,939
Total operating receipts	327,296	316,812	97,581	741,689
Operating disbursements:				
Business type activities	234,588	150,480	50,974	436,042
Total operating disbursements	234,588	150,480	50,974	436,042
Excess of operating receipts over operating disbursements	92,708	166,332	46,607	305,647
Non-operating receipts (disbursements):				
Interest on investments	932	733	--	1,665
Miscellaneous	19,571	240	--	19,811
Debt service	(73,205)	(204,657)	--	(277,862)
Net non-operating receipts (disbursements)	(52,702)	(203,684)	--	(256,386)
Excess (deficiency) of receipts over (under) disbursements	40,006	(37,352)	46,607	49,261
Other financing sources (uses):				
Operating transfers out	--	--	(39,600)	(39,600)
Total other financing sources (uses)	--	--	(39,600)	(39,600)
Net change in cash balances	40,006	(37,352)	7,007	9,661
Cash balances beginning of year	528,422	335,374	64,533	928,329
Cash balances end of year	$ 568,428	$ 298,022	$ 71,540	$ 937,990
Cash Basis Fund Balances				
Unrestricted	$ 568,428	$ 298,022	$ 71,540	$ 937,990
Total cash basis fund balances	$ 568,428	$ 298,022	$ 71,540	$ 937,990

The accompanying notes are an integral part of these statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kalona, Iowa is a political subdivision of the State of Iowa located in Washington County. It was first incorporated in 1879 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and garbage utilities services for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Kalona has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

Excluded Component Units
The City has two component units. The Kalona Library Foundation, which is a non-profit corporation that is legally separate, is a component unit because it has the potential to provide benefits to the City of Kalona Library. The Friends of the Kalona Library is a separate non-profit organization created for the sole purpose of raising funds to support the Kalona Library. The City has elected to exclude the financial information of its component units from these financial statements. Both component units should be blended into the Special Revenue Funds of the City of Kalona.

Following is a summary of the approximate cash basis fund balances, receipts and disbursements of the aggregate component units as of and for the year ended June 30, 2013:

Fund Balance	$ 50,948
Receipts	$ 3,940
Disbursements	$ 3,873

Jointly Governed Organizations
The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Washington County Joint E911 Service Board and Washington County Assessor's Conference Board.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Basis of Presentation

Government-wide Financial Statements
The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements
Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Special Revenue:

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

The Local Option Sales Fund is used to account for the collection and use of local option sales tax.

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 Debt Service Fund is used to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

Enterprise:

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 wastewater treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

Enterprise:

The Garbage Fund accounts for the operation and maintenance of the City's garbage service.

C. Measurement Focus and Basis of Accounting

The City of Kalona maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Assigned - Amounts the 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. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the culture and recreation function.

NOTE 2 - CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2013 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.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City had no investments with credit risk.

NOTE 3 - BONDS AND NOTES PAYABLE

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

Year Ending June 30,	General Obligation Capital Loan Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 385,000	$ 39,115	$ 104,000	$ 62,250	$ 489,000	$ 101,365
2015	385,000	29,243	106,000	59,130	491,000	88,373
2016	230,000	19,305	110,000	55,950	340,000	75,255
2017	70,000	15,810	114,000	52,650	184,000	68,460
2018	75,000	14,445	117,000	49,230	192,000	63,675
2019-2023	435,000	45,720	641,000	191,370	1,076,000	237,090
2024-2028	100,000	2,650	305,000	108,360	405,000	111,010
2029-2033	--	--	238,000	72,870	238,000	72,870
2034-2038	--	--	279,000	34,800	279,000	34,800
2039	--	--	61,000	1,830	61,000	1,830
	$ 1,680,000	$ 166,288	$ 2,075,000	$ 688,440	$ 3,755,000	$ 854,728

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay $1,067,000 in water revenue notes issued in August, 2003. Proceeds from the notes provided financing for the repair and improvement of the water system. The notes are payable solely from water customer net receipts and are payable through 2024. Annual principal and interest payments on the notes are expected to require less than 78 percent of the net receipts. The total principal and interest remaining to be paid on the notes is $789,430. For the current year, principal and interest paid and total customer net receipts were $71,420 and $92,708, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay $2,192,000 in sewer revenue notes issued in February, 1995, December, 2003 and November, 2008. Proceeds from the notes provided financing for the repair and improvement of the sewer system. The notes are payable solely from sewer customer net receipts and are payable through 2039. Annual principal and interest payments on the notes are expected to require greater than 100 percent of the net receipts. The total principal and interest remaining to be paid on the notes is $1,974,010. For the current year, principal and interest paid and total customer net receipts were $200,950 and $166,332, respectively. Existing net position is used to meet debt service payments in years when the net receipts are not sufficient.

NOTE 3 - BONDS AND NOTES PAYABLE - Continued

The resolutions providing for the issuance of the revenue notes include the following provisions.

a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
b. Sufficient transfers shall be made into a separate and special fund to pay current expenses. The fund shall be known as the Sewer/Water Utility Operation and Maintenance Fund. There shall be deposited in the fund each month an amount sufficient to meet the current expenses of the month plus an amount equal to 1/12 of expenses payable on an annual basis such as insurance.
c. Moneys shall next be disbursed to a separate and special fund to pay principal of and interest on the Notes and Parity Obligations known as the Sewer/Water Revenue Note Principal and Interest Sinking Fund (the "Sinking Fund"). The required amount to be deposited in the Sinking Fund in any month shall be an amount equal to 1/6 of the installment of interest coming due on the next payment and 1/12 of the installment of principal coming due on the next payment date.

NOTE 4 - PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.78% (5.95% effective July 1, 2013) of their annual covered salary and the City is required to contribute 8.67% (8.93% effective July 1, 2013) of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were $35,519, $35,964, and $30,017, respectively, equal to the required contribution for each year.

NOTE 5 - COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time payable to employees at June 30, 2013 is $14,803 for vacation and $9,642 for comp time, for a total liability of $24,445. This liability has been computed on rates of pay in effect at June 30, 2013.

NOTE 6 - RISK MANAGEMENT

The City of Kalona is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees' and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue	
	Debt Service	$ 8,927
	TIF	8,000
		16,927
Debt Service	General	285,480
	Special Revenue	
	LOST	98,520
	Enterprise	
	Garbage	39,600
		423,600
		$ 440,527

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

NOTE 8 - SERVICE AGREEMENTS

The City has an agreement with Washington County to obtain police protection for its citizens. The City paid $74,233 for services during the year ended June 30, 2013, and approved an agreement in the amount of $74,619 for the year ending June 30, 2014.

NOTE 9 - CONDUIT DEBT OBLIGATION

On July 11, 2005, Facility Revenue Bonds, Iowa Mennonite School Project, in the amount of $1,300,000 were issued. These revenue bonds were issued for the purpose of financing the cost of constructing, equipping and furnishing a fine arts facility on the Iowa Mennonite School Campus. These bonds are a special limited obligation of the City and shall not be payable from or charged upon any funds other than Loan Repayments made by the Iowa Mennonite School, a Tax Exempt Organization. The bonds do not constitute a debt of the City within any constitutional or statutory limitation.

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: The City operates a single-employer health benefit plan which provides medical benefits for employees and retirees. There are 14 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical benefits are provided through a fully-insured plan with a commercial insurance carrier. Retirees under age 65 pay the same premium for the medical benefits as active employees.

Funding Policy: The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are $456 for single coverage and $958 for family coverage. For the year ended June 30, 2013, the City contributed $35,034 and plan members eligible for benefits contributed $7,434 to the plan.

NOTE 11 - CAPITAL PROJECTS FUND

The City uses the General Fund, general government function, and Urban Renewal Tax Increment Fund, community and economic development function, to account for the resources used in the acquisition and construction of capital facilities. These expenditures should be budgeted and reported under the Capital Projects Fund, capital projects function. The City's total capital projects expenditures for the year ended June 30, 2013 were $336,348.

NOTE 12 - CONTINGENCY

Subsequent Event
The City has evaluated all subsequent events through December 3, 2013, the date the financial statements were available to be issued.

* * *

OTHER INFORMATION

CITY OF KALONA, IOWA
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
FUNDS AND PROPRIETRY FUNDS
OTHER INFORMATION

Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	$ 775,523	$ --	$ 775,523
Tax increment financing	228,218	--	228,218
Other city tax	245,835	--	245,835
Licenses and permits	14,626	2,750	17,376
Use of money and property	27,828	1,665	29,493
Intergovernmental	226,295	--	226,295
Charges for service	119,707	738,939	858,646
Miscellaneous	431,458	19,811	451,269
Total receipts	2,069,490	763,165	2,832,655
Disbursements:			
Public safety	164,143	--	164,143
Public works	315,146	--	315,146
Culture and recreation	572,556	--	572,556
Community and economic development	444,609	--	444,609
General government	160,748	--	160,748
Debt service	433,923	--	433,923
Business type activities	--	713,904	713,904
Total disbursements	2,091,125	713,904	2,805,029
Excess (deficiency) of receipts over (under) disbursements	(21,635)	49,261	27,626
Other financing sources (uses), net	39,600	(39,600)	--
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	17,965	9,661	27,626
Balances beginning of year	1,654,174	928,329	2,582,503
Balances end of year	$ 1,672,139	$ 937,990	$ 2,610,129

See accompanying independent auditor's report.

Budgeted Amounts		Final to Total Variance
Original	Final	
$ 775,338	$ 775,338	$ 185
237,618	237,618	(9,400)
232,942	232,942	12,893
13,500	16,350	1,026
31,037	31,037	(1,544)
468,696	621,696	(395,401)
880,342	899,824	(41,178)
149,586	154,579	296,690
2,789,059	2,969,384	(136,729)
176,759	301,759	137,616
397,585	408,556	93,410
489,538	567,128	(5,428)
418,697	685,799	241,190
169,304	204,491	43,743
433,923	433,923	--
694,622	740,758	26,854
2,780,428	3,342,414	537,385
8,631	(373,030)	400,656
--	--	--
8,631	(373,030)	400,656
2,635,458	2,635,458	(52,955)
$ 2,644,089	$ 2,262,428	$ 347,701

CITY OF KALONA, IOWA
NOTES TO OTHER INFORMATION -
BUDGETARY REPORTING

June 30, 2013

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 comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted included disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by $561,986. The budget amendment is reflected in the final budgeted amount.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the culture and recreation function.

SUPPLEMENTARY INFORMATION

CITY OF KALONA, IOWA
SCHEDULE OF INDEBTEDNESS
Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Capital Loan Notes:			
Library	June 1, 2004	1.30% - 4.55%	$ 1,400,000
General Obligation Capital Loan Notes: Series 2010	November 15, 2010	2.75%	1,600,000
Total General Obligation Notes			
Revenue Notes Payable:			
State revolving fund loans			
Sewer	February 13, 1995	3.00%	489,000
Water	August 26, 2003	3.00%	1,067,000
Sewer	December 12, 2003	3.00%	503,000
Sewer	November 26, 2008	3.00%	1,200,000
Total SRF loans			
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
$ 945,000	$ --	$ 65,000	$ 880,000	$ 20,323	$ 1,610
1,120,000	--	320,000	800,000	28,600	1,833
2,065,000	--	385,000	1,680,000	48,923	3,443
103,000	--	103,000	--	3,090	--
714,000	--	50,000	664,000	21,420	1,637
337,000	--	24,000	313,000	10,110	772
1,125,000	--	27,000	1,098,000	33,750	2,707
2,279,000	--	204,000	2,075,000	68,370	5,116
$4,344,000	$ --	$ 589,000	$ 3,755,000	$ 117,293	$ 8,559

CITY OF KALONA, IOWA
BOND AND NOTE MATURITIES
June 30, 2013

Year ending June 30,	General Obligation Bonds and Notes: GO Capital Loan Notes - Library Note, Issued June 1, 2004		GO Capital Loan Notes - Series 2010, Issued November 15, 2010		
	Interest Rates	Amount	Interest Rates	Amount	Total
2014	1.65%	$ 65,000	2.75%	$ 320,000	$ 385,000
2015	1.75%	65,000	2.75%	320,000	385,000
2016	1.85%	70,000	2.75%	160,000	230,000
2017	1.95%	70,000			70,000
2018	2.05%	75,000			75,000
2019-2023	2.15-2.55%	435,000			435,000
2024	2.65%	100,000			100,000
		$ 880,000		$ 800,000	$1,680,000

Year ending June 30,	State Revolving Funds Notes, Sewer, Issued December 12, 2003	
	Interest Rates	Amount
2014	3.00%	$ 24,000
2015	3.00%	25,000
2016	3.00%	26,000
2017	3.00%	27,000
2018	3.00%	28,000
2019-2023	3.00%	150,000
2024-2028	3.00%	33,000
2029-2033		
2034-2038		
2039		
		$ 313,000

See accompanying independent auditor's report.

State Revolving Funds Notes				
Water		Sewer		
Issued August 26, 2003		Issued November 26, 2008		
Interest Rates	Amount	Interest Rates	Amount	Total
3.00%	$ 52,000	3.00%	$ 28,000	$ 104,000
3.00%	53,000	3.00%	28,000	106,000
3.00%	55,000	3.00%	29,000	110,000
3.00%	57,000	3.00%	30,000	114,000
3.00%	58,000	3.00%	31,000	117,000
3.00%	319,000	3.00%	172,000	641,000
3.00%	70,000	3.00%	202,000	305,000
		3.00%	238,000	238,000
		3.00%	279,000	279,000
		3.00%	61,000	61,000
	$ 664,000		$ 1,098,000	$2,075,000

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

	2013	2012	2011
Receipts:			
Property tax	$ 775,523	$ 736,263	$ 711,674
Tax increment financing	228,218	323,223	267,667
Other city tax	245,835	240,511	225,123
Licenses and permits	14,626	10,934	10,493
Use of money and property	27,828	36,308	42,711
Intergovernmental	226,295	706,758	258,583
Charges for service	119,707	112,702	125,762
Miscellaneous	431,458	404,703	673,283
Total	$ 2,069,490	$ 2,571,402	$ 2,315,296
Disbursements:			
Operating:			
Public safety	$ 164,143	$ 165,258	$ 154,178
Public works	315,146	457,959	189,054
Culture and recreation	572,556	471,200	482,032
Community and economic development	444,609	234,995	130,358
General government	160,748	893,300	2,834,706
Debt service	433,923	447,876	285,455
Capital projects	--	--	--
Total	$ 2,091,125	$ 2,670,588	$ 4,075,783

See accompanying independent auditor's report.

2010	2009	2008	2007	2006	2005
$ 755,896	$ 698,056	$ 675,362	$ 668,988	$ 642,763	$ 565,919
187,925	215,652	103,253	222,404	204,193	256,747
231,494	214,175	244,718	233,659	163,745	193,729
13,194	18,053	6,335	4,228	4,190	31,300
63,930	49,743	75,555	203,833	32,292	3,633
242,173	353,212	371,898	226,786	209,545	203,853
120,790	86,906	92,198	83,288	73,917	67,064
253,591	167,519	216,591	64,000	16,970	40,876
$ 1,868,993	$ 1,803,316	$ 1,785,910	$ 1,707,186	$ 1,347,615	$ 1,363,121
$ 158,602	$ 156,819	$ 167,840	$ 142,978	$ 133,259	$ 130,999
462,789	185,787	395,722	481,566	144,316	397,995
641,988	457,115	502,739	370,763	331,379	291,540
706,375	364,541	485,000	348,316	216,009	254,635
794,759	144,508	399,324	186,825	169,350	111,373
28,030	24,268	25,340	26,248	54,750	--
--	10,992	--	--	66,566	1,246,982
$ 2,792,543	$ 1,344,030	$ 1,975,965	$ 1,556,696	$ 1,115,629	$ 2,433,524

COMMENTS AND RECOMMENDATIONS

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

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Kalona, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 3, 2013. Our report expressed qualified and unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Kalona's internal control over financial reporting to determine the auditing procedures appropriate in the circumstances 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 Kalona's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Kalona's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

To the Honorable Mayor and
Members of the City Council

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

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 13-I-A to be a significant deficiency.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 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.

Response to Findings

The City of Kalona's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City of Kalona's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Grimewood, Ben, Kyhnn & Co. P.C.

Atlantic, Iowa
December 3, 2013

CITY OF KALONA, IOWA

Schedule of Findings

Year ended June 30, 2013

PART I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

13-I-A Segregation of Duties: One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. However, because there are a limited number of people that have the primary responsibility for the accounting and financial duties, those aspects of internal accounting control which rely upon an adequate segregation of duties are missing in the City.

Recommendation: We recommend that the City review its control procedures to obtain the maximum internal control possible under the circumstances and the Council be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: Since there are only two employees at city hall, it is difficult to segregate duties. Duties are segregated to the best of our ability.

Conclusion: Response accepted.

* * *

CITY OF KALONA, IOWA

Schedule of Findings

Year ended June 30, 2013

PART II: Other Findings Related to Statutory Reporting

13-II-A Certified Budget: Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the culture and recreation function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation: The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response: The budget will be amended in the future, if applicable.

Conclusion: Response accepted.

13-II-B Questionable Disbursements: During the audit, we did not note any disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

13-II-D Business Transactions: In accordance with Chapter 362.5(10) of the Code of Iowa, no transactions between the City and the City officials and City employees were noted that represented conflicts of interest.

13-II-E Bond Coverage: Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

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

13-II-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

13-II-H Revenue Bonds and Notes: No instances of non-compliance with the revenue bond and note

CITY OF KALONA, IOWA

Schedule of Findings

Year ended June 30, 2013

PART II: Other Findings Related to Statutory Reporting - Continued

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

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

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

Conclusion: Response accepted.

13-II-J Urban Renewal Annual Report: The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

* * *