CITY OF KANAWHA

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

JUNE 30, 2014

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CITY OF KANAWHA

OFFICIALS

Name	Title	Term Expires
	(Before January 2014)	
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 2014
Earl Hill	Attorney	July 2014
	(After January 2014)	
Terry Johnson	Mayor	Jan 2016
Judy Vander Ploeg	Council Member	Jan 2018
Nancy Litch	Council Member	Jan 2018
Christa Hanson	Council Member	Jan 2018
Sherrie Johnson	Council Member	Jan 2016
Ray Bassett	Council Member	Jan 2016
Sharon Grimm	City Clerk	July 2015
Earl Hill	Attorney	July 2015

Renner & Birchem, PC
Certified Public Accountants
"Where people who care make the difference"

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MICHAEL J. BIRCHEM, CPA, CFP®

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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 City of Kanawha, Iowa, as of and for the year ended June 30, 2014, 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

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about 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 evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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 City of Kanawha as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

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.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Kanawha'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 nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic 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.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 6 through 12 and 25 through 26 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 October 2, 2014 on our consideration of City of Kanawha's internal control over financial reporting and on 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Kanawha's internal control over financial reporting and compliance.

Renner & Birchem, P.C.

October 2, 2014

Renner & Birchem, P.C.
Britt, Iowa

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, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 3.0%, or $14,733 from fiscal 2013 to fiscal 2014. Property tax receipts increased $4,809 and operating grants, contributions and restricted interest increased $3,173.

- Disbursements increased .07% or $354 in fiscal 2014 from fiscal 2013. Public safety disbursements decreased $23,193. Culture and recreation disbursements increased $8,291.

- The City's total cash basis net position increased 9.8%, or $65,531 from June 30, 2013 to June 30, 2014. Of this amount, the cash basis net position of the governmental activities increased $12,157 and the cash basis net position of the business type activities increased by $53,374.

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 Cash Basis Statement of Activities and Net Position. 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 Cash Basis Statement of Activities and Net Position reports information that helps answer this question.

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

The Cash Basis Statement of Activities and Net Position 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 position 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 $301,167 to $313,324. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Government Activities

Receipts:	Year Ended June 30,	
Program receipts:	2014	2013
Operating grants, contributions and restricted interest	$ 110,862	107,689
General receipts:		
Property tax	294,720	289,911
Local option tax	55,418	56,150
Unrestricted interest	1,134	1,148

Other general receipts	7,570	29,539
Total receipts	469,704	484,437
Disbursements:		
Public safety	122,847	146,040
Public works	140,071	134,056
Culture and recreation	71,784	63,493
Community and economic development	1,669	1,528
General government	102,513	96,413
Debt service	73,663	70,663
Total disbursements	512,547	512,193
Change in cash basis net position before transfers	(42,843)	(27,756)
Transfers, net	55,000	35,000
Change in cash basis net position	12,157	7,244
Cash basis net position beginning of year	301,167	293,923
Cash basis net position end of year	$ 313,324	301,167

The City's total receipts for governmental activities decreased by 3.0%, or $14,733. The total cost of all programs and services increased by $354, or .07%, with no new programs added this year.

The cost of all governmental activities this year was $512,547 compared to $512,193 last year. However, as shown in the Statement of Activities and Net Position on page 14, the amount taxpayers ultimately financed for these activities was only $401,685 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 ($110,862). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2014 from $107,689 to $110,862.

Changes in Cash Basis Net Position of Business Type Activities

Receipts:	Year Ended June 30,	
Program receipts:	2014	2013
Charges for service:		
Water	$ 124,057	123,898
Sewer	69,427	70,891
Total receipts	193,484	194,789
Disbursements:		
Water	51,124	55,325
Sewer	33,986	22,361
Debt Service		25,388
Total disbursements	85,110	103,074
Change in cash basis net position before transfers	108,374	91,715
Transfers, net	(55,000)	(35,000)
Change in cash basis net position	53,374	56,715
Cash basis net position beginning of year	365,300	308,585
Cash basis net position end of year	$ 418,674	365,300

Total business type activities receipts for the fiscal year were $193,484 compared to $194,789 last year. Total disbursements for the fiscal year decreased by $17,964 to a total of $85,110. The cash balance increased by $53,374 during the fiscal year compared to an increase of $56,715 last year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Kanawha completed the year, its governmental funds reported a combined fund balance of $313,324, an increase of $12,157 from last year's total of $301,167. 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 $7,033 from the prior year to $131,266. Net transfers of $125,560 were received from other funds.

- The Road Use Tax Fund cash balance increased by $9,526 to $139,524 during the fiscal year. The City intends to use this money to upgrade the condition of all city roads.

- There was an increase in the Debt Service Fund cash balance of $1,099 for an ending balance of $2,233.

- The Employee Benefits Fund balance increased by $10,581 to $40,686 during the fiscal year.

- The Local Option Fund balance decreased by $16,082 to ($385) during the fiscal year. $70,560 was transferred to the General Fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by $17,933 to $274,213 during the fiscal year.

- The Sewer Fund cash balance increased by $41,990 to $144,461 during the fiscal year.

- The Sewer Revenue Reserve cash balance decreased by $2,049 to $0, $2,049 was transferred to the Sewer Fund.

- The Sewer Improvement Fund cash balance decreased by $4,500 to $0, $4,500 was transferred to the Sewer Fund.

BUDGETARY HIGHLIGHTS

The City did not amend its budget during the fiscal year June 30, 2014.

DEBT ADMINISTRATION

At June 30, 2014, the City had $385,000 in general obligation bonds, compared to $440,000 at the end of the prior year, as shown below.

Outstanding Debt at Year-End

	June 30,	
	2014	2013
General obligation bonds	$ 385,000	440,000

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of $385,000 is below its constitutional debt limit of approximately $1,083,000.

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 2015 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 2015. Amounts available for appropriation in the operating budget are $690,122, an increase of .8% from the final 2014 budget. Budgeted disbursements are expected to decrease by $18,067. The City has added no major new programs or initiatives to the 2015 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately $17,204 by the close of 2015. 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

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2014

		Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs:						
Governmental activities:						
Public safety	$ 122,847		28,770	(94,077)		(94,077)
Public works	140,071		65,105	(74,966)		(74,966)
Culture and recreation	71,784		16,987	(54,797)		(54,797)
Community and economic development	1,669			(1,669)		(1,669)
General government	102,513			(102,513)		(102,513)
Debt service	73,663			(73,663)		(73,663)
Total governmental activities	512,547		110,862	(401,685)		(401,685)
Business type activities:						
Water	51,124	124,057			72,933	72,933
Sewer	33,986	69,427			35,441	35,441
Total business type activities	85,110	193,484			108,374	108,374
Total	$ 597,657	193,484	110,862	(401,685)	108,374	(293,311)
General Receipts:						
Property tax levied for:						
General purposes				$ 157,391		157,391
Employee benefits and insurance				62,567		62,567
Debt service				74,762		74,762
Local option sales tax				55,418		55,418
Unrestricted interest on investments				1,134		1,134
Miscellaneous				7,448		7,448
Sale of assets				122		122
Transfers				55,000	(55,000)	
Total general receipts and transfers				413,842	(55,000)	358,842
Change in cash basis net position				12,157	53,374	65,531
Cash basis net position beginning of year				301,167	365,300	666,467
Cash basis net position end of year				$ 313,324	418,674	731,998
Cash Basis Net Position						
Restricted:						
Expendable:						
Streets				$ 139,524		139,524
Debt service				2,233		2,233
Other purposes				40,301		40,301
Unrestricted				131,266	418,674	549,940
Total cash basis net position				$ 313,324	418,674	731,998

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, 2014

		Special Revenue				
	General	Road Use Tax	Local Option	Employee Benefits	Debt Service	Total
Receipts:						
Property tax	$ 157,391			62,567	74,762	294,720
Other city tax			55,418			55,418
Licenses and permits	665					665
Use of money and property	1,359					1,359
Intergovernmental	45,757	65,105				110,862
Miscellaneous	6,558					6,558
Total receipts	211,730	65,105	55,418	62,567	74,762	469,582
Disbursements:						
Operating:						
Public safety	111,295			11,552		122,847
Public works	62,802	55,579	940	20,750		140,071
Culture and recreation	68,906			2,878		71,784
Community and economic development	1,669					1,669
General government	85,707			16,806		102,513
Debt service					73,663	73,663
Total disbursements	330,379	55,579	940	51,986	73,663	512,547
Excess (deficiency) of receipts over (under) disbursements	(118,649)	9,526	54,478	10,581	1,099	(42,965)
Other financing sources (uses):						
Sale of assets	122					122
Operating transfers in	125,560					125,560
Operating transfers out			(70,560)			(70,560)
Total other financing sources (uses)	125,682		(70,560)			55,122
Net change in cash balances	7,033	9,526	(16,082)	10,581	1,099	12,157
Cash balances beginning of year	124,233	129,998	15,697	30,105	1,134	301,167
Cash balances end of year	$ 131,266	139,524	(385)	40,686	2,233	313,324
Cash Basis Fund Balances						
Restricted for:						
Debt service					2,233	2,233
Streets		139,524				139,524
Other purposes			(385)	40,686		40,301
Unassigned	$ 131,266					131,266
Total cash basis fund balances	$ 131,266	139,524	(385)	40,686	2,233	313,324

See notes to financial statements.

Exhibit C

City of Kanawha

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

As of and for the year ended June 30, 2014

	Enterprise Funds				
	Water	Sewer Rental	Sewer Revenue Reserve	Sewer Improvement	Total
Operating receipts:					
Charges for service	$ 124,057	69,427			193,484
Total operating receipts	124,057	69,427			193,484
Operating disbursements:					
Business type activities	51,124	33,986			85,110
Total operating disbursements	51,124	33,986			85,110
Excess of operating receipts over operating disbursements	72,933	35,441			108,374
Operating transfers in (out)	(55,000)	6,549	(2,049)	(4,500)	(55,000)
Net change in cash balances	17,933	41,990	(2,049)	(4,500)	53,374
Cash balance beginning of year	256,280	102,471	2,049	4,500	365,300
Cash balances end of year	$ 274,213	144,461			418,674
Cash Basis Fund Balances					
Unrestricted	$ 274,213	144,461			418,674
Total cash basis fund balances	$ 274,213	144,461			418,674

See notes to financial statements.

(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 1899 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 Cash Basis Statement of Activities and Net Position 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 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 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 have constraints on cash balances 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. 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 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:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise, 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 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.

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 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, 2014 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 had no investments during the year ended June 30, 2014.

Interest Rate Risk

The City's investment policy limits the investment of operating funds (fund expected to be expended in the current budget year or within 15 months of receipt) to 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.

(3) Bonds Payable

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Obligation Bonds		Total	
	Principal	Interest	Principal	Interest
2015	$ 55,000	16,212	55,000	16,212
2016	60,000	13,958	60,000	13,958
2017	65,000	11,482	65,000	11,482
2018	65,000	8,785	65,000	8,785
2019	70,000	6,055	70,000	6,055
2020	70,000	3,045	70,000	3,045
Total	$ 385,000	59,537	385,000	59,537

(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 5.95% of their annual covered salary and the City is required to contribute 8.93% 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, 2014, 2013 and 2012 were $11,369, $13,168 and $12,259 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.

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 $590 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, 2014 the City contributed $20,905.

(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, 2014, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount June 30, 2014
Vacation	$ 1,527

This liability has been computed based on rates of pay as of June 30, 2014.

(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, 2014.

Year Ending	Loader/Plow
2015	$ 16,863
2016	16,863
2017	16,863
2018	16,863
Total	67,452
Less amount representing interest	480
Present value of minimum net lease payments	$ 66,972

(8) Related Party Transactions

The City had no business transactions between the City and City officials during the year ended June 30, 2014.

(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, 2014 is as follows:

Transfer to	Transfer from	Amount
Enterprise:	Enterprise:	
Sewer	Sewer Revenue Reserve	$ 2,049
	Sewer Improvements	4,500
		6,549
General	Special Revenue:	
	Local Option	70,560
	Enterprise:	
	Water	55,000
		125,560
Total		$132,109

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

(11) Deficit Balance

The Local Option Fund had a deficit balance of $385 at June 30, 2014. The deficit balance was a result of costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of funds.

(12) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB No.27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

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, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts Original	Budgeted Amounts Final	Final to Total Variance
Receipts:						
Property tax	$ 294,720		294,720	283,219	283,219	11,501
Other city tax	55,418		55,418	66,219	66,219	(10,801)
Licenses and permits	665		665	1,176	1,176	(511)
Use of money and property	1,359		1,359	1,575	1,575	(216)
Intergovernmental	110,862		110,862	114,688	114,688	(3,826)
Charges for services		193,484	193,484	203,300	203,300	(9,816)
Miscellaneous	6,558		6,558	14,200	14,200	(7,642)
Total receipts	469,582	193,484	663,066	684,377	684,377	(21,311)
Disbursements:						
Public safety	122,847		122,847	180,995	180,995	58,148
Public works	140,071		140,071	142,653	142,653	2,582
Culture and recreation	71,784		71,784	78,177	78,177	6,393
Community and economic development	1,669		1,669	2,000	2,000	331
General government	102,513		102,513	121,247	121,247	18,734
Debt service	73,663		73,663	73,913	73,913	
Business type activities		85,110	85,110	92,000	92,000	6,890
Total disbursements	512,547	85,110	597,657	690,985	690,985	93,078
Excess (deficiency) of receipts over (under) disbursements	(42,965)	108,374	65,409	(6,608)	(6,608)	72,017
Other financing sources, net	55,122	(55,000)	122			122
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	12,157	53,374	65,531	(6,608)	(6,608)	72,139
Balances beginning of year	301,167	365,300	666,467	632,311	632,311	34,156
Balances end of year	$ 313,324	418,674	731,998	625,703	625,703	106,295

See accompanying independent auditor's report.

City of Kanawha

Notes to Other Information – Budgetary Reporting

June 30, 2014

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 the Internal Service Fund. 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.

SUPPLEMENTARY INFORMATION

Schedule 1

City of Kanawha

Schedule of Indebtedness

Year ended June 30, 2014

Obligation	Date of Issue	Rate of Interest	Amount Originally Issued	Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation bonds:							
General corporate purpose	5/1/2007	4.00 - 4.35%	$ 815,000	440,000	55,000	385,000	18,413
Total				440,000	55,000	385,000	18,413

See accompanying independent auditor's report.

Schedule 2

CITY OF KANAWHA

Bond and Note Maturities

June 30, 2014

GENERAL OBLIGATION NOTES		
	General Corporate Purpose	
Year	Issued October 1, 2000	
Ending	Interest	
June 30,	Rates	Amount
2015	4.100%	$ 55,000
2016	4.125	60,000
2017	4.150	65,000
2018	4.200	65,000
2019	4.300	70,000
2020	4.350	70,000
Total		**$ 385,000**

See accompanying independent auditor's report.

CITY OF KANAWHA

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

For the Last Ten Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Receipts:										
Property tax	$ 294,720	289,911	313,092	334,442	342,808	309,714	277,321	230,406	222,467	220,944
Other city tax	55,418	56,150	55,000	47,666	65,285	59,367	46,952	49,065	51,972	44,957
Licenses and permits	665	665	740	370	450	450	260	265	678	1,015
Use of money and property	1,359	1,348	1,531	1,867	2,526	4,495	4,992	3,008	4,266	2,961
Intergovernmental	110,862	107,689	104,052	108,809	113,065	133,893	350,451	64,078	125,571	74,199
Charges for service							310	2,903	290	2,467
Miscellaneous	6,558	28,617	8,289	19,292	10,860	8,305	7,284	70,946	55,921	106,000
Total	$ 469,582	484,380	482,704	512,446	534,994	516,224	687,570	420,671	461,165	452,543
Disbursements:										
Operating:										
Public safety	$ 122,847	146,040	150,004	155,093	146,247	118,398	136,592	115,850	181,550	110,432
Public works	140,071	134,056	125,169	153,343	144,560	137,752	118,378	105,846	134,784	145,840
Culture and recreation	71,784	63,493	53,432	51,481	54,153	45,061	53,996	54,464	55,068	61,138
Community and economic development	1,669	1,528	1,597	575	1,733	701	6,033	1,733	2,860	
General government	102,513	96,413	103,750	85,871	89,516	83,867	93,405	83,732	79,402	69,823
Debt service	73,663	70,663	93,613	117,461	116,108	109,355	105,062	358,512	58,460	76,075
Capital projects						21,784	455,722	371,642	30,096	10,000
Total	$ 512,547	512,193	527,565	563,824	552,317	516,918	969,188	1,091,779	542,220	473,308

See accompanying independent auditor's report.

Renner & Birchem, PC
Certified Public Accountants
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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 City of Kanawha, Iowa, as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 2, 2014. Our report expressed 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 Kanawha's internal control over financial reporting to determine the audit 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 Kanawha's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Kanawha'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 significant deficiencies or material weaknesses and, therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 City of Kanawha's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-14 and I-B-14 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, 2014 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.

City of Kanawha's Responses to Findings

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

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.

Renner & Birchem, P.C.

October 2, 2014

Renner & Birchem, P.C.
Britt, Iowa

City of Kanawha

Schedule of Findings

Year Ended June 30, 2014

Part I: Findings Related to the Financial Statements:

Internal Control Deficiencies:

I-A-14 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-14 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.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2014

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

Instances of Non – Compliance:

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-14 Certified Budget – Disbursements during the year ended June 30, 2014, did not exceed amounts budgeted.

II-B-14 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-14 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-14 Business Transactions – No business transactions between the City and City officials or employees were noted.

II-E-14 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-14 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not.

II-G-14 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-14 Financial Condition – The Local Option Fund had a deficit balance of $385 at June 30, 2014.

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

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

Conclusion – Response accepted.