CITY OF CLARION, IOWA

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

JUNE 30, 2006

- Prepared By -

Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616-2036
Phone (641)257-4222

CITY OF CLARION, IOWA

TABLE OF CONTENTS

		PAGE
OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT		2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS		4-9
BASIC FINANCIAL STATEMENTS:		
	Exhibit	
Government-wide Financial Statement:		
Statement of Activities and Net Assets - Cash Basis	A	10-13
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	14-15
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	16-17
Notes to Financial Statements		18-26
REQUIRED SUPPLEMENTARY INFORMATION:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds		27-28
Notes to Required Supplementary Information - Budgetary Reporting		29
OTHER SUPPLEMENTARY INFORMATION:		
	Schedule	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	30-31
Schedule of Cash Receipts, Disbursement and Changes in Cash Balances - Nonmajor Proprietary Funds	2	32-33
Schedule of Indebtedness	3	34-35
Bond and Note Maturities	4	36-39
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	5	40
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		41-42
SCHEDULE OF FINDINGS		43-46

CITY OF CLARION, IOWA

OFFICIALS

(Before January 2006)

NAME	TITLE	TERM EXPIRES
John Ofstethun	Mayor	January 2008
Mike Nail	Mayor Pro tem	January 2006
Pam Whitters	Council Member	January 2006
Kirk Rier	Council Member	January 2006
Steve Evans	Council Member	January 2008
Francis Stumpf	Council Member	January 2008

(After January 2006)

John Ofstethun	Mayor	August 25, 2006
Mike Nail	Mayor Pro tem	January 2010
Steve Evans	Council Member	January 2008
Francis Stumpf	Council Member	January 2008
Darren Bierl	Council Member	January 2010
Kirk Rier	Council Member	January 2010
Vicky Boyington	City Administrator/Clerk	January 2007
Duane Asbe	Treasurer	Indefinite
Robert Brinton	Attorney	January 2007

Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616
E-mail: rlp@fiai.net
(641) 257-4222
or (641) 228-2812
Fax (641) 228-1513

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

I 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 Clarion, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Clarion's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above do not include the financial transactions of the Clarion Community Memorial Hospital, a component unit of the City of Clarion, pertaining to the Enterprise Funds, which should be included in order to conform with U.S. generally accepted accounting principles. The financial transactions that should have been recorded are on a different basis of accounting.

In my opinion, except for the effects on the financial statements due to the exclusion of the financial transactions of the Clarion Community Memorial Hospital from the reporting entity, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Clarion as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated August 30, 2006 on my consideration of the City of Clarion's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 27 through 29 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clarion's basic financial statements. Other auditors previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (which are not presented herein) and expressed qualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

August 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Clarion 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, 2006. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 4.3%, or approximately $177,000 from fiscal 2005 to fiscal 2006. Local Option Sales Tax decreased approximately $71,000 and bond proceeds increased $103,000.

Disbursements increased 13.1%, or approximately $536,000, in fiscal 2006 from fiscal 2005. Public safety, public works and culture and recreation disbursements increased approximately $104,000, $75,000 and $2,000, respectively.

The City's total cash basis net assets decreased 10.3%, or approximately $268,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately $293,000 and the assets of the business type activities increased by approximately $25,000.

USING THIS ANNUAL REPORT

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

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

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

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

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

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from $1,859,000 to $1,566,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	Year ended June 30, 2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service	$ 728	$ 684
Operating grants, contributions and restricted interest	328	335
Capital grants, contributions and restricted interest	433	204
General receipts:		
Property tax	1,325	1,315
Local option sales tax	162	233
Unrestricted interest on investments	50	40
Bond proceeds	1,200	1,097
Other general receipts	97	106
Transfers, net	-	132
Total receipts and transfers	$4,323	$4,146
Disbursements:		
Public safety	$ 671	$ 567
Public works	686	611
Health and social services	6	-
Culture and recreation	301	299
Community and economic development	186	71
General government	160	196
Debt service	944	1,797
Capital projects	1,662	539
Total disbursements	$4,616	$4,080
Increase (decrease) in cash basis net assets	$ (293)	$ 66
Cash basis net assets beginning of year	1,859	1,793
Cash basis net assets end of year	$1,566	$1,859

The City's total receipts for governmental activities increased by 4.3%, or $177,000. The total cost of all programs and services increased by approximately $536,000, or 13%. The increase in receipts was primarily the result of proceeds received from the issuance of bonds. The increase in disbursements was due primarily to the new aquatic center.

The cost of all governmental activities this year was $4,616,000 compared to $4,080,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 10-13, the amount taxpayers ultimately financed for these activities was only $3,127,000 because some of the cost was paid by those directly benefited from the programs ($728,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest ($761,000). Overall, the City's governmental activities receipts, including governmental aid and fees for service, increased in 2006 from approximately $4,146,000 to approximately $4,323,000. The City paid for the remaining "public benefit" portion of governmental activities with approximately $1,487,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year ended June 30, 2006	2005
Receipts:		
Program receipts:		
Charges for service:		
Water	$ 454	$ 440
Sewer rental	274	258
Other	86	86
Operating grants, contributions and restricted interest	-	6
General receipts:		
Other general receipts	5	-
Total receipts	$ 819	$ 790
Disbursements and transfers:		
Water	$ 319	$ 383
Sewer rental	265	300
Water debt service	142	-
Other	68	88
Transfers, net	-	132
Total disbursements and transfers	$ 794	$ 903
Increase (decrease) in cash basis net assets	$ 25	$ (113)
Cash basis net assets beginning of year	747	860
Cash basis net assets end of year	$ 772	$ 747

Total business type activities receipts for the fiscal year were $819,000 compared to $790,000 last year. This increase was due primarily to higher receipts in both water and sewer funds. The cash balance increased by approximately $25,000 from the prior year. Total disbursements and transfers for the fiscal year decreased by 12% to a total of $794,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Clarion completed the year, its governmental funds reported a combined fund balance of $1,566,120, a decrease of more than $293,339 below last year's total of $1,859,459. 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 decreased $72,512 from the prior year to $447,184. Approximately $30,000 of this decrease was due to an increase in public safety, public works, and culture and recreation disbursements.

The Road Use Tax Fund cash balance was $167,160, an increase of $26,893 from the previous year. The increase was due to a decrease in road construction.

The Local Option Sales Tax Fund cash balance decreased by $14,872 to $339,193 during the fiscal year. This decrease was attributable to a decrease of approximately $71,000 of local option sales tax revenue this fiscal year and fewer projects.

The Tax Increment Financing Fund cash balance was $487,688, an increase of $176,878 from the previous year. The increase was the result of special assessment receipts and no transfers from the fund this year.

There was no activity in the Community Center Project Fund during the fiscal year ended June 30, 2006. The cash balance remains at $160,000.

The Swimming Pool Project Fund cash balance decreased by $132,743 to a balance of negative $69,375 at June 30, 2006. The decrease is a result of the aquatic center being completed during the year.

The Debt Service Fund cash balance decreased by $230,014 to $66,512 during the fiscal year. This decrease is a result of paying off interim financing.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased by $7,439 to $333,402, due primarily to a transfer to the water debt service.

The Sewer Fund cash balance increased by $11,935 to $125,363, due primarily to increased recipts.

The Water Debt Service Fund cash balance increased $1,985 to $133,860 due to debt service payments being less than transfers in.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once on May 15, 2006. The amendment resulted in an increase in operating disbursements related to an ambulance purchase, additional fuel costs, the airport blacktop project, extra staff and supplies for the swimming pool, an additional transit bus, aquatic center construction, library, CDBG housing, and a hospital department addition. The City issued bonds to absorb some of these additional costs. Using existing cash balances also assisted in absorbing some of these additional costs.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately $4,899,000 in bonds and other long-term debt, compared to approximately $4,519,000 last year, as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2006	2005
General obligation bonds	$ 2,489	$ 2,884
Special assessment bonds and notes	325	385
Revenue notes	1,835	1,250
REDLA loan	250	-
Total	$ 4,899	$ 4,519

Debt increased as a result of issuing revenue notes for the new aquatic center.

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 $3,064,137 is significantly below its constitutional debt limit of $4,942,860.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Clarion’s elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy.

The Clarion Chamber of Commerce and the Clarion Development Commission have merged into one organization called Partnership for Growth. This new organization and the City of Clarion as team players will provide for economic growth opportunities.

The City of Clarion has a new Gates subdivision, which is a 38-acre industrial park that will become a new tax resource. Clarion Packaging Inc. has purchased 4 of the 8 lots, and is constructing an 800 by 125 foot building and will hire 80 employees in the near future.

A spec building has been built in the industrial park which, when occupied, will increase the tax base. A feasibility study on purchasing lots 1 and 2, including the spec building, is being conducted.

Wright Medical Center has remodeled and expanded, including an assisted living complex. The Clarion Goldfield School System has passed a bond issue for additional construction, installing Geo Thermal and remodeling.

Various existing businesses are expanding and growing.

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, Vicky Boyington, City Clerk, 121 1st SW, Clarion, Iowa 50525.

CITY OF CLARION, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

		Program Receipts		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	$ 671,442	$ 141,917	$ -	$ -
Public works	686,333	343,331	252,317	-
Health and social services	5,600	-	-	-
Culture and recreation	301,154	69,935	25,776	-
Community and economic development	185,926	60,723	50,000	-
General government	159,698	-	-	-
Debt service	944,070	82,150	-	-
Capital projects	1,662,436	29,935	-	433,101
Total governmental activities	$4,616,659	$ 727,991	$ 328,093	$ 433,101
Business type activities:				
Water	$ 318,611	$ 454,004	$ -	$ -
Sewer rental	264,673	273,877	-	-
Water debt service	142,687	-	-	-
Other	68,002	86,190	-	-
Total business type activities	$ 793,973	$ 814,071	$ -	$ -
Total	$5,410,632	$1,542,062	$ 328,093	$ 433,101

(Continued)

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
$ (529,525)	$ -	$ (529,525)
(90,685)	-	(90,685)
(5,600)	-	(5,600)
(205,443)	-	(205,443)
(75,203)	-	(75,203)
(159,698)	-	(159,698)
(861,920)	-	(861,920)
(1,199,400)	-	(1,199,400)
$(3,127,474)	$ -	$(3,127,474)
$ -	$ 135,393	$ 135,393
-	9,204	9,204
-	(142,687)	(142,687)
-	18,188	18,188
$ -	$ 20,098	$ 20,098
$(3,127,474)	$ 20,098	$(3,107,376)

CITY OF CLARION, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

General Receipts:	
Property tax levied for:	
General purposes	
Tax increment financing	
Debt service	
Local option sales tax	
Unrestricted interest on investments	
Bond proceeds	
Miscellaneous	
Total general receipts	
Change in cash basis net assets	
Cash basis net assets beginning of year	
Cash basis net assets end of year	
Cash Basis Net Assets	
Restricted:	
Streets	
Urban renewal purposes	
Debt service	
Other purposes	
Unrestricted	
Total cash basis net assets	

See Notes to Financial Statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
$ 690,706	$ -	$ 690,706
371,856	-	371,856
262,127	-	262,127
162,028	-	162,028
50,024	-	50,024
1,200,000	-	1,200,000
97,394	4,696	102,090
$ 2,834,135	$ 4,696	$ 2,838,831
$ (293,339)	$ 24,794	$ (268,545)
1,859,459	746,997	2,606,456
$ 1,566,120	**$ 771,791**	**$ 2,337,911**

$ 167,160	$ -	$ 167,160
487,688	-	487,688
66,512	-	66,512
397,576	-	397,576
447,184	771,791	1,218,975
$ 1,566,120	**$ 771,791**	**$ 2,337,911**

CITY OF CLARION, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

		Special Revenue		
	General	Road Use Tax	Local Option Sales Tax	Tax Increment Financing
RECEIPTS:				
Property tax	$ 477,790	$ -	$ -	$ -
Tax increment financing	-	-	-	371,856
Other city tax	16,392	-	162,028	-
Licenses and permits	6,285	-	-	-
Use of money and property	76,860	-	-	-
Intergovernmental	23,298	248,497	-	50,000
Charges for service	530,990	-	-	-
Special assessments	-	-	-	60,723
Miscellaneous	56,861	6,562	-	4
Total receipts	$1,188,476	$ 255,059	$ 162,028	$ 482,583
DISBURSEMENTS:				
Operating:				
Public safety	$ 486,810	$ -	$ 86,910	$ -
Public works	404,241	222,566	31,830	-
Health and social services	-	5,600	-	-
Culture and recreation	255,283	-	4,212	-
Community and economic development	-	-	-	168,606
General government	145,933	-	980	-
Debt service	-	-	-	137,099
Capital projects	-	-	-	-
Total disbursements	$1,292,267	$ 228,166	$ 123,932	$ 305,705
Excess (deficiency) of receipts over (under) disbursements	$ (103,791)	$ 26,893	$ 38,096	$ 176,878
Other financing sources (uses):				
Note proceeds	$ -	$ -	$ -	$ -
Operating transfers in	31,279	-	4,268	-
Operating transfers out	-	-	(57,236)	-
Total other financing sources (uses)	$ 31,279	$ -	$ (52,968)	$ -
Net change in cash balances	$ (72,512)	$ 26,893	$ (14,872)	$ 176,878
Cash balances beginning of year	519,696	140,267	354,065	310,810
Cash balances end of year	**$ 447,184**	**$ 167,160**	**$ 339,193**	**$ 487,688**
Reserved				
Debt service	$ -	$ -	$ -	$ -
Unreserved:				
General fund	447,184	-	-	-
Special revenue funds	-	167,160	339,193	487,688
Capital project funds	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	**$ 447,184**	**$ 167,160**	**$ 339,193**	**$ 487,688**

See Notes to Financial Statements.

Debt Service	Capital Projects: Community Center Project	Capital Projects: Swimming Pool Project	Other Nonmajor Governmental Funds	Total
$ 254,941	$ -	$ -	$ 190,248	$ 922,979
-	-	-	-	371,856
7,186	-	-	6,276	191,882
-	-	-	-	6,285
-	-	-	6	76,866
-	-	100,000	103,915	525,710
-	-	-	-	530,990
82,150	-	-	-	142,873
-	-	233,000	57,452	353,879
$ 344,277	$ -	$ 333,000	$ 357,897	$ 3,123,320
$ -	$ -	$ -	$ 97,722	$ 671,442
-	-	-	27,696	686,333
-	-	-	-	5,600
-	-	-	41,659	301,154
-	-	-	-	168,606
-	-	-	12,785	159,698
574,291	-	250,000	-	961,390
-	-	1,411,475	250,961	1,662,436
$ 574,291	$ -	$ 1,661,475	$ 430,823	$ 4,616,659
$ (230,014)	$ -	$(1,328,475)	$ (72,926)	$(1,493,339)
$ -	$ -	$ 1,200,000	$ -	$ 1,200,000
-	-	-	40,236	75,783
-	-	(4,268)	(14,279)	(75,783)
$ -	$ -	$ 1,195,732	$ 25,957	$ 1,200,000
$ (230,014)	$ -	$ (132,743)	$ (46,969)	$ (293,339)
296,526	160,000	63,368	14,727	1,859,459
$ 66,512	**$ 160,000**	**$ (69,375)**	**$ (32,242)**	**$ 1,566,120**
$ 66,512	$ -	$ -	$ -	$ 66,512
-	-	-	-	447,184
-	-	-	133,704	1,127,745
-	160,000	(69,375)	(219,924)	(129,299)
-	-	-	53,978	53,978
$ 66,512	**$ 160,000**	**$ (69,375)**	**$ (32,242)**	**$ 1,566,120**

CITY OF CLARION, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Enterprise Funds		
	Water	**Sewer Rental**	**Water Debt Service**
Operating receipts:			
Charges for service	$ 454,004	$ 273,877	$ -
Miscellaneous	1,840	2,731	-
Total operating receipts	$ 455,844	$ 276,608	$ -
Operating disbursements:			
Business type activities	318,611	264,673	-
Excess of operating receipts over operating disbursements	$ 137,233	$ 11,935	$ -
Non-operating receipts (disbursements):			
Debt service	-	-	(142,687)
Excess (deficiency) of receipts over (under) disbursements	$ 137,233	$ 11,935	$ (142,687)
Other financing sources (uses):			
Operating transfers in	$ -	$ -	$ 144,672
Operating transfers out	(144,672)	-	-
Total other financing sources (uses)	$(144,672)	$ -	$ 144,672
Net change in cash balances	$ (7,439)	$ 11,935	$ 1,985
Cash balances beginning of year	340,841	113,428	131,875
Cash balances end of year	**$ 333,402**	**$ 125,363**	**$ 133,860**
Cash Basis Fund Balances:			
Reserved for debt service	$ -	$ -	$ 133,860
Unreserved	333,402	125,363	-
Total cash basis fund balances	**$ 333,402**	**$ 125,363**	**$ 133,860**

See Notes to Financial Statements.

Other Nonmajor Enterprise Fund	Total
$ 86,190	$ 814,071
125	4,696
$ 86,315	$ 818,767
68,002	651,286
$ 18,313	$ 167,481
-	(142,687)
$ 18,313	$ 24,794
$ -	$ 144,672
-	(144,672)
$ -	$ -
$ 18,313	$ 24,794
160,853	746,997
$ 179,166	**$ 771,791**
$ 85,000	$ 218,860
94,166	552,931
$ 179,166	**$ 771,791**

(1) Summary of Significant Accounting Policies

The City of Clarion is a political subdivision of the State of Iowa located in Wright County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, 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, the City of Clarion has included all funds, organizations, agencies, boards, commissions and authorities, except for the Clarion Community Memorial Hospital. 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.

These financial statements present the City of Clarion (the Primary government) and exclude all component units. The component unit discussed below is not included in the City's reporting entity. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from their administrative office.

Component Unit - The Clarion Community Memorial Hospital is not presented in these financial statements. It is legally separate from the City, but is financially accountable to the City. The Hospital is governed by a five-member board appointed by the City Council and the Hospital's operating budget is subject to the approval of the City Council.

Jointly Governed Organizations - The City participates in a jointly governed organization that provides services to the citizenry of the City but does 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 Wright County Assessor’s Conference Board.

B. Basis of Presentation

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

(1) Summary of Significant Accounting Policies - continued

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for local option sales tax revenues.

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

(1) Summary of Significant Accounting Policies - continued

Capital Projects:

The Community Center Project Fund accounts for construction and maintenance on the center.

The Swimming Pool Project Fund is used to account for the construction of the aquatic center.

The City reports the following major proprietary funds:

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

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

The Water Debt Service Fund accounts for funds reserved for debt service payments as required by bond requirements.

C. Measurement Focus and Basis of Accounting

The City of Clarion 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.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, health and social services and debt service functions.

(2) Cash and Investments

The City's deposits in banks at June 30, 2006 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.

(2) Cash and Investments - continued

The City's investments at June 30, 2006 are as follows:

	Carrying Amount	Fair Value
U.S. Savings Bond	$ 4,500	$ 4,500

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.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligations, revenue and special assessment bonds and notes are as follows:

Year Ending	General Obligation Bonds and Notes		Revenue Bonds and Notes		Special Assessment Bonds and Notes		Other Loans	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 315,260	$117,553	$ 120,000	$ 88,163	$ 65,000	$ 15,758	$ 25,000	$ -
2008	337,029	102,037	120,000	82,535	65,000	12,418	25,000	-
2009	348,921	85,244	130,000	76,885	65,000	9,000	25,000	-
2010	320,945	67,480	135,000	70,756	55,000	5,505	25,000	-
2011	248,111	50,634	140,000	64,325	15,000	3,405	25,000	-
2012-2016	918,871	94,341	815,000	212,280	60,000	6,687	125,000	-
2017-2020	-	-	375,000	34,381	-	-	-	-
Total	$2,489,137	$517,289	$1,835,000	$629,325	$325,000	$ 52,773	$250,000	$ -

Year Ending	Total	
June 30,	Principal	Interest
2007	$ 525,260	$ 221,474
2008	547,029	196,990
2009	568,921	171,129
2010	535,945	143,741
2011	428,111	118,364
2012-2016	1,918,871	313,308
2017-2020	375,000	34,381
Total	$4,899,137	$1,199,387

The resolutions providing for the issuance of the general obligation bonds and notes include the following provisions:

(a) At the option of the City, notes due on the Capital Loan Note issue of December 15, 1992, are subject to redemption and prepayment in inverse numerical order beginning January 1, 1995, and on any interest payment date thereafter, at a price of par plus accrued interest to call date, by giving proper notice.

(3) Bonds and Notes Payable - continued

(b) At the option of the City, notes due on the Capital Loan Anticipation Note issue of August 1, 1998, are subject to redemption and prepayment in any order of maturity beginning June 1, 2006, and on any interest payment thereafter, at a price of par plus accrued interest to call date, by giving proper notice.

(c) At the option of the City, notes due on the Capital Loan Note issue of February 1, 2000, are subject to redemption and prepayment in any order of maturity beginning June 1, 2007,and on any interest payment date thereafter, at a price of par plus accrued interest to call date, by giving proper notice.

(d) At the option of the City, notes due on the Capital Loan Notice issue of May 1, 2000, are subject to redemption and prepayment in any order of maturity beginning June 1, 2007, and on any interest to call date, by giving proper notice.

(e) At the option of the City, notes due on the Capital Loan Note issue of May 1, 2001, are subject to redemption and prepayment in any order of maturity beginning June 1, 2009, and on any interest payment date thereafter, at a price of par plus accrued interest to call date, by giving proper notice.

(f) At the option of the City, notes due on the Capital Loan Note issue of April 1, 2002, are subject to redemption and prepayment in any order of maturity beginning June 1, 2009, and on any interest payment date thereafter, at a price of par plus accrued interest to call date, by giving proper notice.

(g) At the option of the City, notes due on Capital Loan Note issue of October 1, 2004, are subject to redemption and prepayment in any order of maturity beginning June 1, 2009, and on any interest payment date thereafter, at a price of par plus accrued interest to call date, by giving proper notice.

Urban Renewal Revenue Annual Appropriation Capital Loan Note

The urban renewal annual appropriation capital loan note was issued for the purpose of paying costs of aiding in the planning, undertaking, and carrying out of an urban renewal project, including the reconstruction of the existing swimming pool and recirculation facilities and construction of a new bathhouse for the City. The City may call and prepay any principal amount of the note at any time, by giving proper notice.

The resolutions providing for the issuance of the revenue bonds and notes include the following provisions:

(a) The bonds and notes will only be redeemed from the future earnings of the enterprise activity and bond/note holders hold a lien on the future earnings of the funds.

(3) Bonds and Notes Payable - continued

(b) Sufficient monthly transfers shall be made to separate water and sewer revenue bond and note sinking accounts within the Enterprise Funds for the purpose of making the bond and note principal and interest payments when due.

(c) Additional monthly transfers shall be made to water and sewer revenue bond and note reserve accounts until the required balances are accumulated. The water revenue bond reserve account is restricted for the purpose of paying for unusual or extraordinary maintenance, repairs, renewals and replacements to the system and when necessary for the purpose of making payments of principal and interest. The sewer revenue note reserve account is restricted for the purpose of paying principal and interest due on the sewer revenue capital loan notes when sufficient money is available in the sewer revenue note sinking account.

(d) Additional monthly transfers shall be made to a sewer improvement account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying for any improvement, extension or repair to the system or for note and interest payments which the other funds might be unable to make.

(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 3.70% of their annual covered salary and the City is required to contribute 5.75% 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, 2006, 2005 and 2004 were $50,795, $46,933 and $45,092, respectively, which were equal to the required contributions for each year.

(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 termination payments payable to employees at June 30, 2006, primarily relating to the General Fund is as follows:

Type of Benefit	Amount
Vacation	$ 64,599
Comp time	19,231
Total	$ 83,830

This liability has been computed based on rates of pay in effect at June 30, 2006.

(6) Leases

The City has entered into a lease purchase agreement with the Community Memorial Hospital of Clarion Foundation. The Foundation is an organization that is exempt from federal income tax as an organization described in Section 501 (c)(3) of the Internal Revenue Code, and is audited by other auditors.

The Foundation originally issued $3,050,000 in notes to contract the Meadows Facility which is a housing/hospital project. The notes do not constitute general obligations of the City or change the general credit or taxing powers of the City.

The City is leasing the facility from the Foundation. The City is not expecting to incur costs from this lease as the Foundation will remit funds to the City in amounts sufficient to cover the lease payments. However, during the year, the principal and interest payments of $112,865 and $126,887, respectively, were paid directly by the Foundation. The City's obligations under this lease purchase agreement are not general obligations of the City.

The future minimum lease payments under the capital lease are as follow:

Year Ending June 30,	Principal	Interest	Total
2007	$ 120,424	$ 119,328	$ 239,752
2008	128,489	111,263	239,752
2009	137,094	102,658	239,752
2010	146,275	93,477	239,752
2011	156,072	83,680	239,752
2012	166,524	73,228	239,752
2013	177,677	62,075	239,752
2014	189,576	50,176	239,752
2015	202,272	37,480	239,752
2016	215,819	23,933	239,752
2017	230,273	9,479	239,752
2018	19,871	108	19,979
Total	$1,890,366	$ 766,885	$2,657,251

(7) Deficit Fund Balances

The Capital Projects, CDBG Fund had a deficit balance of $27,412 at June 30, 2006. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon future receipts.

The Capital Projects, 05/06 Street Project Fund had a deficit balance of $176,475 at June 30, 2006. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of bond proceeds.

The Capital Projects, Library Building Project Fund had a deficit balance of $16,036 at June 30, 2006. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon future receipts.

(7) Deficit Fund Balances – continued

The Capital Projects, Swimming Pool Project Fund had a deficit balance of $69,375 at June 30, 2006. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon future receipts.

(8) Wright County Landfill Authority

The City, in conjunction with twelve other municipalities, has created the Wright County Landfill Authority. The Authority was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Authority will be prorated among municipalities. The Authority is governed by a board composed of an elected representative of the governing body of each participating governmental jurisdiction.

The Authority is not accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt, therefore, the City of Clarion has an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2006, the City of Clarion paid the Authority $155,650 for its share of the costs. Completed financial statements for the Authority can be obtained from the Wright County Landfill.

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Emergency levy	$ 14,279
	Local option sales tax	17,000
		$ 31,279
Special Revenue:		
Local option sales tax	Capital Projects:	
	Swimming pool project	$ 4,268
Capital Projects:		
CDBG	Special Revenue:	
	Local option sales tax	$ 11,885
Highway 3 Project	Special Revenue:	
	Local option sales tax	$ 28,352
Enterprise:	Enterprise:	
Water debt service	Water	$144,672
Total		$220,456

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

(10) Risk Management

The City of Clarion 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.

(11) Commitments

At June 30, 2006, the following construction commitment had been made:

Project	Total Contract	Costs Incurred to Date
Pool	$1,548,450	$1,455,171
Airport	314,697	298,962
Water tower	13,500	-
	$1,876,647	$1,754,133

(12) Subsequent Events

On July 17, 2006 the City accepted Concrete Foundation Inc’s. bid of $465,006 for the industrial park and Nelson Avenue paving project.

Required Supplementary Information

CITY OF CLARION, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required To Be Budgeted
RECEIPTS:			
Property tax	$ 922,979	$ -	$ -
Tax increment financing	371,856	-	-
Other city tax	191,882	-	-
Licenses and permits	6,285	-	-
Use of money and property	76,866	-	-
Intergovernmental	525,710	-	-
Charges for service	530,990	814,071	-
Special assessments	142,873	-	-
Miscellaneous	353,879	4,696	-
Total receipts	$ 3,123,320	$ 818,767	$ -
DISBURSEMENTS:			
Public safety	$ 671,442	$ -	$ -
Public works	686,333	-	-
Health and social services	5,600	-	-
Culture and recreation	301,154	-	-
Community and economic development	185,926	-	-
General government	159,698	-	-
Debt service	944,070	142,687	-
Capital projects	1,662,436	-	-
Business type activities	-	651,286	-
Total disbursements	$ 4,616,659	$ 793,973	$ -
Excess (deficiency) of receipts over (under) disbursements	$(1,493,339)	$ 24,794	$ -
Other financing sources, net	1,200,000	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements	$ (293,339)	$ 24,794	$ -
Balance beginning of year	1,859,459	746,997	-
Balance end of year	**$ 1,566,120**	**$ 771,791**	**$ -**

See Accompanying Independent Auditor's Report.

Total	Budgeted Amounts Original	Budgeted Amounts Final	Final to Total Variance
$ 922,979	$ 912,617	$ 912,617	$ 10,362
371,856	399,419	399,419	(27,563)
191,882	230,530	230,530	(38,648)
6,285	22,500	22,500	(16,215)
76,866	58,840	58,840	18,026
525,710	274,235	274,235	251,475
1,345,061	18,000,917	18,000,917	(16,655,856)
142,873	87,710	87,710	55,163
358,575	102,250	102,250	256,325
$ 3,942,087	$20,089,018	$ 20,089,018	$(16,146,931)
$ 671,442	$ 592,615	$ 669,615	$ (1,827)
686,333	310,660	721,379	35,046
5,600	-	-	(5,600)
301,154	310,151	315,151	13,997
185,926	398,279	406,279	220,353
159,698	218,926	218,926	59,228
1,086,757	453,559	453,559	(633,198)
1,662,436	-	1,665,000	2,564
651,286	17,808,874	22,808,874	22,157,588
$ 5,410,632	$20,093,064	$ 27,258,783	$ 21,848,151
$(1,468,545)	$ (4,046)	$ (7,169,765)	$ 5,701,220
1,200,000	-	7,165,719	(5,965,719)
$ (268,545)	$ (4,046)	$ (4,046)	$ (264,499)
2,606,456	2,863,295	2,863,295	(256,839)
$ 2,337,911	**$ 2,859,249**	**$ 2,859,249**	**$ (521,338)**

CITY OF CLARION, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary 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. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, health and social services, and debt service functions.

Other Supplementary Information

CITY OF CLARION, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue		
	Employee Benefit	**Emergency Levy**	**Library Improvement**
RECEIPTS:			
Property tax	$ 169,791	$ 20,457	$ -
Other city tax	5,800	476	-
Use of money and property	-	-	6
Intergovernmental	-	-	3,814
Miscellaneous	12,685	-	11,643
Total receipts	$ 188,276	$ 20,933	$ 15,463
DISBURSEMENTS:			
Operating:			
Public safety	$ 97,722	$ -	$ -
Public works	27,696	-	-
Culture and recreation	35,685	-	5,974
General government	12,785	-	-
Capital projects	-	-	-
Total disbursements	$ 173,888	$ -	$ 5,974
Excess (deficiency) of receipts over (under) disbursements	$ 14,388	$ 20,933	$ 9,489
Other financing sources (uses):			
Operating transfers in	$ -	$ -	$ -
Operating transfers out	-	(14,279)	-
Total other financing sources (uses)	$ -	$ (14,279)	$ -
Net change in cash balances	$ 14,388	$ 6,654	$ 9,489
Cash balances beginning of year	76,164	(232)	27,241
Cash balances end of year	**$ 90,552**	**$ 6,422**	**$ 36,730**
Cash Basis Fund Balances:			
Unreserved:			
Special revenue funds	$ 90,552	$ 6,422	$ 36,730
Capital project funds	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	**$ 90,552**	**$ 6,422**	**$ 36,730**

See Accompanying Independent Auditor's Report.

Capital Projects				Permanent	
CDBG	05/06 Street Project	Highway 3 Project	Library Building Project	Cemetery Perpetual Care	Total
$ -	$ -	$ -	$ -	$ -	$ 190,248
-	-	-	-	-	6,276
-	-	-	-	-	6
100,101	-	-	-	-	103,915
7,328	-	22,607	2,489	700	57,452
$ 107,429	$ -	$ 22,607	$ 2,489	$ 700	$ 357,897
$ -	$ -	$ -	$ -	$ -	$ 97,722
-	-	-	-	-	27,696
-	-	-	-	-	41,659
-	-	-	-	-	12,785
125,759	30,104	50,958	44,140	-	250,961
$ 125,759	$ 30,104	$ 50,958	$ 44,140	$ -	$ 430,823
$ (18,330)	$ (30,104)	$ (28,351)	$ (41,651)	$ 700	$ (72,926)
$ 11,885	$ -	$ 28,351	$ -	$ -	$ 40,236
-	-	-	-	-	(14,279)
$ 11,885	$ -	$ 28,351	$ -	$ -	$ 25,957
$ (6,445)	$ (30,104)	$ -	$ (41,651)	$ 700	$ (46,969)
(20,967)	(146,372)	-	25,615	53,278	14,727
$ (27,412)	**$ (176,476)**	**$ -**	**$ (16,036)**	**$ 53,978**	**$ (32,242)**
$ -	$ -	$ -	$ -	$ -	$ 133,704
(27,412)	(176,476)	-	(16,036)	-	(219,924)
-	-	-	-	53,978	53,978
$ (27,412)	**$ (176,476)**	**$ -**	**$ (16,036)**	**$ 53,978**	**$ (32,242)**

CITY OF CLARION, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Water Bond Reserve	Storm Sewer Permits	Landfill
Operating receipts:			
Charges for service	$ -	$ -	$ 86,190
Miscellaneous	-	-	125
Total operating receipts	$ -	$ -	$ 86,315
Operating disbursements:			
Business type activities	-	-	68,002
Net change in cash balances	$ -	$ -	$ 18,313
Cash balances beginning of year	85,000	150	75,703
Cash balances end of year	**$ 85,000**	**$ 150**	**$ 94,016**
Cash Basis Fund Balances:			
Reserved	$ 85,000	$ -	$ -
Unreserved	-	150	94,016
Total cash basis fund balances	**$ 85,000**	**$ 150**	**$ 94,016**

See Accompanying Independent Auditor's Report.

Total
$ 86,190
125
$ 86,315
68,002
$ 18,313
160,853
$ 179,166
$ 85,000
94,166
$ 179,166

CITY OF CLARION, IOWA
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Bonds and Notes:			
Capital Loan Notes	11-20-90	4.90%	$ 250,000
Capital Loan Notes	12-15-92	5.90	295,000
Capital Loan Anticipation Notes	5-01-95	5.00 – 5.80	565,000
Capital Loan Anticipation Notes	8-01-98	4.25 – 4.75	405,000
Capital Loan Notes	2-01-00	4.80 – 5.50	420,000
Capital Loan Notes	5-01-00	5.00 – 5.50	725,000
Capital Loan Notes	5-01-01	4.10 – 5.00	540,000
Capital Loan Notes	4-01-02	3.00 – 5.00	470,000
Capital Loan Notes	10-01-04	2.50 - 4.20	990,000
Special Assessment Notes:			
Roadway/Utility Improvement	11-01-98	4.50 – 5.00%	$ 120,000
Street Improvement	2-01-00	5.10 – 6.00	71,000
Street Improvement	5-01-00	5.10 – 6.00	285,000
Street Improvement	10-01-04	2.80 – 4.85	130,000
Urban Renewal Revenue Annual Appropriation Capital Loan Notes	9-1-05	4.45%	$ 950,000
Revenue Bonds and Notes:			
Water	7-01-76	5.00%	$1,100,000
Water Capital Loan Notes	4-01-99	4.15 – 5.35	850,000
Rural Economic Development Loan Agreement	11-21-05	0.00%	$ 250,000
Subtotal - City’s share			
Capital Lease:			
Meadows Facility	12-01-92	5.50 – 8.00%	$3,050,000
Total indebtedness			

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
$ 16,462	$ -	$ 16,462	$ -	$ 858	$ -
182,745	-	23,608	159,137	10,080	-
70,000	-	70,000	-	4,060	-
185,000	-	45,000	140,000	8,585	-
245,000	-	45,000	200,000	13,148	-
440,000	-	80,000	360,000	23,783	-
400,000	-	50,000	350,000	18,880	-
355,000	-	45,000	310,000	16,475	-
990,000	-	20,000	970,000	64,562	-
$2,884,207	$ -	$ 395,070	$2,489,137	$ 160,431	$ -
$ 60,000	$ -	$ 15,000	$ 45,000	$ 2,955	$ -
45,000	-	5,000	40,000	2,620	-
150,000	-	30,000	120,000	7,860	-
130,000	-	10,000	120,000	6,189	-
$ 385,000	$ -	$ 60,000	$ 325,000	$ 19,624	$ -
$ -	$ 950,000	$ 285,000	$ 665,000	$ 26,144	$ -
$ 580,000	$ -	$ 35,000	$ 545,000	$ 29,000	$ -
670,000	-	45,000	625,000	33,368	-
$1,250,000	$ -	$ 80,000	$1,170,000	$ 62,368	$ -
$ -	$ 250,000	$ -	$ 250,000	$ -	$ -
$4,519,207	$1,200,000	$ 820,070	$4,899,137	$ 268,567	$ -
$2,109,012	$ -	$ 112,865	$1,996,147	$ 126,887	$ -
$6,628,219	**$1,200,000**	**$ 932,935**	**$6,895,284**	**$ 395,454**	**$ -**

CITY OF CLARION, IOWA
BOND AND NOTE MATURITIES
JUNE 30, 2006

	GENERAL OBLIGATION					
	Capital Loan Notes					
Year	Issued December 15, 1992		Issued February 1, 2000		Issued May 1, 2000	
Ending	Interest		Interest		Interest	
June 30,	Rates	Amount	Rates	Amount	Rates	Amount
2007	7.00%	$ 25,260	5.30%	$ 45,000	5.35%	$ 85,000
2008	7.00	27,029	5.35	50,000	5.40	85,000
2009	7.00	28,921	5.40	50,000	5.45	90,000
2010	7.00	30,945	5.50	55,000	5.50	100,000
2011	7.00	33,111		-		-
2012	7.00	13,871		-		-
2013		-		-		-
2014		-		-		-
2015		-		-		-
Total		$159,137		$200,000		$ 360,000

	GENERAL OBLIGATION BONDS AND NOTES		
	Capital Loan Anticipation Notes		
Year	Issued August 1, 1998		
Ending	Interest		
June 30,	Rates	Amount	Total
2007	4.60%	$ 45,000	$ 315,260
2008	4.65	45,000	337,029
2009	4.75	50,000	348,921
2010		-	320,945
2011		-	248,111
2012		-	258,871
2013		-	210,000
2014		-	220,000
2015		-	230,000
Total		$140,000	$ 2,489,137

(continued)

B O N D S A N D N O T E S

Capital Loan Notes					
Issued May 1, 2001		Issued April 1, 2002		Issued October 1, 2004	
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
4.50%	$ 50,000	4.30%	$ 45,000	2.80%	$ 20,000
4.60	55,000	4.50	50,000	3.05	25,000
4.70	55,000	4.70	50,000	3.30	25,000
4.80	60,000	4.80	50,000	3.35	25,000
4.90	65,000	4.90	55,000	3.70	95,000
5.00	65,000	5.00	60,000	3.85	120,000
	-		-	4.00	210,000
	-		-	4.10	220,000
	-		-	4.20	230,000
	$350,000		$310,000		$970,000

R E V E N U E B O N D S A N D N O T E S

	Water		Water Capital Loan Note		
Year Ending June 30	Issued July 1, 1976 Interest Rates	Amount	Issued April 1, 1999 Interest Rates	Amount	Total
2007	5.00%	$ 40,000	4.60%	$ 45,000	$ 85,000
2008	5.00	40,000	4.65	45,000	85,000
2009	5.00	40,000	4.70	50,000	90,000
2010	5.00	45,000	4.80	50,000	95,000
2011	5.00	45,000	4.90	55,000	100,000
2012	5.00	50,000	5.00	55,000	105,000
2013	5.00	55,000	5.10	55,000	110,000
2014	5.00	55,000	5.15	60,000	115,000
2015	5.00	55,000	5.20	65,000	120,000
2016	5.00	60,000	5.25	70,000	130,000
2017	5.00	60,000	5.35	75,000	135,000
Total		$545,000		$625,000	$1,170,000

CITY OF CLARION, IOWA
BOND AND NOTE MATURITIES
JUNE 30, 2006

	SPECIAL ASSESSMENT					
	Roadway/Utility Improvement		Street Improvements			
Year	Issued November 1, 1998		Issued February 1,2000		Issued May 1, 2000	
Ending June 30	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2007	4.90%	$ 15,000	5.70%	$ 10,000	5.70%	$ 30,000
2008	4.95	15,000	5.80	10,000	5.80	30,000
2009	5.00	15,000	5.90	10,000	5.90	30,000
2010		-	6.00	10,000	6.00	30,000
2011		-		-		-
2012		-		-		-
2013		-		-		-
2014		-		-		-
2015		-		-		-
Total		**$ 45,000**		**$ 40,000**		**$ 120,000**

	Urban Renewal Revenue Annual Appropriation Capital Loan Notes		Rural Economic Development Loan Agreement
Year	Issued September 1, 2005		Issued November 21, 2005
Ending June 30	Interest Rates	Amount	Interest Rates	Amount
2007	4.45%	$ 35,000		$ 25,000
2008	4.45	35,000		25,000
2009	4.45	40,000		25,000
2010	4.45	40,000		25,000
2011	4.45	40,000		25,000
2012	4.45	45,000		25,000
2013	4.45	45,000		25,000
2014	4.45	45,000		25,000
2015	4.45	50,000		25,000
2016	4.45	50,000		25,000
2017	4.45	55,000		-
2018	4.45	60,000		-
2019	4.45	60,000		-
2020	4.45	65,000		-
Total		**$665,000**		**$250,000**

See Accompanying Independent Auditor's Report.

N O T E S

Issued October 1, 2004

Interest Rates	Amount	Total
3.10%	$ 10,000	$ 65,000
3.40	10,000	65,000
3.70	10,000	65,000
4.00	15,000	55,000
4.20	15,000	15,000
4.40	15,000	15,000
4.55	15,000	15,000
4.70	15,000	15,000
4.85	15,000	15,000
	$ 120,000	**$ 325,000**

CITY OF CLARION, IOWA
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION - ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	2006	2005	2004	2003
Receipts:				
Property tax	$ 922,979	$ 906,335	$ 803,611	$ 892,717
Tax increment financing	371,856	376,982	312,304	363,415
Other city tax	191,882	265,184	192,088	169,396
Licenses and permits	6,285	4,617	5,507	5,176
Use of money and property	76,866	66,533	56,817	55,528
Intergovernmental	525,710	479,669	288,939	327,171
Charges for service	530,990	382,081	198,059	173,370
Special assessments	142,873	257,755	250,396	146,587
Miscellaneous	353,879	177,494	209,806	273,752
Total	$3,123,320	$2,916,650	$2,317,527	$2,407,112
Disbursements:				
Operating:				
Public safety	$ 671,442	$ 567,306	$ 536,686	$ 534,728
Public works	686,333	610,639	1,259,778	268,437
Health and social services	5,600	-	-	-
Culture and recreation	301,154	299,356	303,255	288,829
Community and economic development	185,926	70,848	172,148	443,805
General government	159,698	195,578	197,765	214,565
Debt Service	944,070	597,032	581,359	590,099
Capital projects	1,662,436	538,813	-	86,460
Total	$4,616,659	$2,879,572	$3,050,991	$2,426,923

See Accompanying Independent Auditor's Report.

Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616
E-mail: rlp@fiai.net

(641) 257-4222
or (641) 228-2812
Fax (641) 228-1513

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:

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Clarion, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated August 30, 2006. My report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting because the financial statements did not include the financial transactions of the Clarion Community Memorial Hospital. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Clarion's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Clarion's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe items II-A-06 and II-B-06 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Clarion's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Clarion and other parties to whom the City of Clarion may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Clarion during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

August 30, 2006

CITY OF CLARION, IOWA
Schedule of Findings
Year Ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

(a) A qualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principals, since the financial statements did not include the financial transactions of the Clarion Community Memorial Hospital.

(b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.

(c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06 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. I noted that certain accounting functions are not properly segregated.

Recommendation - I realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and make changes to improve internal control where possible.

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.

II-B-06 Posting of Financial Transactions – Receipts and disbursements were not always posted to the correct accounts.

Recommendation – More care should be exercised when posting transactions to reduce the incidence of mispostings.

Response – In the future, more care will be exercised when posting transactions.

Conclusion – Response accepted.

Part II: Findings Related to the Financial Statements: - continued

II-C-06 Delinquent Utilities – The City has not been fully enforcing the oridinance pertaining to delinquent utilities. I noted that shut-offs were not being implemented when accounts become fully delinquent.

Recommendation - The City should comply with its ordinance pertaining to delinquent utilities.

Response – We will do this.

Conclusion - Response accepted.

II-D-06 Post-dated Checks – I noted that the City post-dated checks from the 2004-2005 fiscal year to the 2005-2006 fiscal year. These transactions circumvent proper matching of disbursements with the budget.

Recommendation – The City should not post-date checks in order to properly match disbursements to the budget.

Response – We will not post-date checks in the future.

Conclusion – Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

Part IV: Other Findings Related to Statutory Reporting:

IV-A-06 Certified Budget - Disbursements during the year ended June 30, 2006, exceeded the amount budgeted in the Public Safety, Health and Social Services, and Debt Service Functions. Chapter 384.20 of the Code of Iowa states in part that 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 - We will do this in the future.

Conclusion - Response accepted.

IV-B-06 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-06 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-06 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.

Part IV: Other Findings Related to Statutory Reporting: - continued

IV-F-06 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

IV-G-06 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-06 Other Information Required by Bond and Note Resolutions - The following insurance policies were in force at June 30, 2006:

Insurer	Description	Amount	Expiration Date
Employers Mutual Casualty	Commercial property	$5,443,459	April 1, 2007
Employers Mutual Casualty	General liability:		
	General aggregate limit	$2,000,000	April 1, 2007
	Products/complete operation	2,000,000	April 1, 2007
	Personal and/or advertising Injury limit	1,000,000	April 1, 2007
	Each occurrence limit	1,000,000	April 1, 2007
	Fire damage limit	100,000	April 1, 2007
	Medical expense limit	5,000	April 1, 2007
Employers Mutual Casualty	Inland marine:		
	Contractor's equipment	$ 526,800	April 1, 2007
	Valuable papers and records	Various	April 1, 2007
Employers Mutual Casualty	Commercial Automobile:		
	Liability	$1,000,000	April 1, 2007
	Auto medical payments	5,000	April 1, 2007
	Uninsured motorists	50,000	April 1, 2007
	Underinsured motorists	50,000	April 1, 2007
	Comprehensive	Actual cash value or cost of repairs whichever is less minus deductible as shown on schedule for each covered auto	April 1, 2007
	Collision	Actual cash value or cost of repairs whichever is less minus deductible as shown on schedule for each covered auto	April 1, 2007
Employers Mutual Casualty	Commercial Crime – Inside premises	$ 25,000	April 1, 2007
	Commercial Crime – Outside premises	25,000	April 1, 2007
	Public Employee Dishonesty	175,000	April 1, 2007
	Forgery/Alteration	10,000	April 1, 2007
Employers Mutual Casualty	Commercial Umbrella:		
	Occurrence limit	$5,000,000	April 1, 2007
	Aggregate limit	5,000,000	April 1, 2007

Part IV: Other Findings Related to Statutory Reporting: - continued

Insurer	Description	Amount	Expiration Date
Employers Mutual Casualty	Linebacker:		
	Occurrence limit	$1,000,000	April 1, 2007
	Aggregate limit	1,000,000	April 1, 2007
US Specialty Insurance Co.	General Liability:		
	Airport	$1,000,000	May 7, 2007
Iowa Municipalities Workers' Compensation Association	Workers' Compensation Self Insurance Retention: Each occurrence	$1,000,000	July 1, 2007

IV-I-06 Financial Condition – The Capital Projects Fund, CDBG, 05/06 Street Project, Library Building Project and Swimming Pool Project had deficit balances at June 30, 2006 of $27,412, $176,476, $16,036 and $69,375, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial position.

Response – These deficits will be eliminated.

Conclusion – Response accepted.

IV-J-06 Payment of General Obligation Bonds - I noted that general obligation debt was paid from the Special Revenue Fund – Tax Increment Financing Account, and not from the Debt Service Fund, as required by Chapter 384.4 of the Code of Iowa.

Recommendation - The City should make general obligation debt payments from the Debt Service Fund as required by the Code.

Response - We will do this.

Conclusion - Response accepted.

IV-K-06 Payment of Urban Renewal Revenue Bonds – I noted that revenue bond debt was paid from the Special Revenue Fund - Tax Increment Financing Account, and not from a separate Urban Renewal Revenue Bond Sinking Account, as required by the Bond Resolution.

Recommendation – The City should make revenue bond debt payments from the Urban Renewal Revenue Bond Sinking Account, as required by the bond resolution.

Response – We will do this.

Conclusion – Response accepted.