

CITY OF CLARION, IOWA  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2007

- Prepared By -

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CITY OF CLARION, IOWA

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CITY OF CLARION, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Mike Nail	Mayor (Appointed)	January 2008
John Ofstethun	Mayor	Resigned
Kirk Rier	Mayor Pro tem	January 2010
Steve Evans	Council Member	January 2008
Lindsey German	Council Member	January 2008
Francis Stumpf	Council Member	January 2008
Darren Bierl	Council Member	January 2010
Vicky Boyington	City Administrator/Clerk	January 2008
Duane Asbe	Treasurer	Indefinite
Robert Brinton	Attorney	January 2008



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**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, 2007, 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, 2007, 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 21, 2007 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 be 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. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the years ended June 30, 2006, June 30, 2004 and June 30, 2003 (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 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. 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.

A handwritten signature in cursive script that reads "Larry Pump".

August 21, 2007

## 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, 2007. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

Receipts of the City's governmental activities decreased 10.0%, or approximately \$433,000 from fiscal 2006 to fiscal 2007. Local Option Sales Tax increased approximately \$81,000 and bond proceeds decreased \$225,000. Also, charges for service and capital grants, contributions, and restricted interest decreased approximately \$234,000 and \$306,000, respectively.

Disbursements decreased 32%, or approximately \$1,478,000, in fiscal 2007 from fiscal 2006. Public works, debt service and capital projects disbursements decreased approximately \$268,000, \$331,000 and \$1,297,000, respectively.

The City's total cash basis net assets increased 36.5%, or approximately \$852,000, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased approximately \$752,000 and the assets of the business type activities increased by approximately \$100,000.

### **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, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information 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 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 several Enterprise Funds, including water, sewer and landfill accounts.

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$1,566,000 to \$2,318,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

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

	<u>Year ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Receipts:		
Program receipts:		
Charges for service	\$ 494	\$ 728
Operating grants, contributions and restricted interest	475	328
Capital grants, contributions and restricted interest	127	433
General receipts:		
Property tax	1,293	1,325
Local option sales tax	243	162
Unrestricted interest on investments	49	50
Bond proceeds	975	1,200
Other general receipts	234	97
Total receipts	<u>\$3,890</u>	<u>\$4,323</u>
Disbursements:		
Public safety	\$ 678	\$ 671
Public works	418	686
Health and social services	6	6
Culture and recreation	331	301
Community and economic development	523	186
General government	204	160
Debt service	613	944
Capital projects	365	1,662
Total disbursements	<u>\$3,138</u>	<u>\$4,616</u>
Change in cash basis net assets	\$ 752	\$ (293)
Cash basis net assets beginning of year	<u>1,566</u>	<u>1,859</u>
Cash basis net assets end of year	<u>\$2,318</u>	<u>\$1,566</u>

The City's total receipts for governmental activities decreased by 10.0%, or \$433,000. The total cost of all programs and services decreased by approximately \$1,437,000, or 31.1%. The decrease in receipts was primarily the result of proceeds received from the issuance of bonds and capital grants, contributions and restricted interest. The decrease in disbursements was due primarily to the completion of the aquatic center.

The cost of all governmental activities this year was \$3,138,000 compared to \$4,616,000 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 \$2,042,000 because some of the cost was paid by those directly benefited from the programs (\$494,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$602,000). Overall, the City's governmental activities receipts, including governmental aid and fees for service, decreased in 2007 from approximately \$4,323,000 to approximately \$3,890,000. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$1,536,000 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,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 472	\$ 454
Sewer rental	284	274
Other	86	86
General receipts:		
Bond proceeds	126	-
Other general receipts	7	5
Total receipts	\$ 975	\$ 819
Disbursements:		
Water	\$ 335	\$ 319
Sewer rental	280	265
Water debt service	144	142
Other	116	68
Total disbursements	\$ 875	\$ 794
Change in cash basis net assets	\$ 100	\$ 25
Cash basis net assets beginning of year	772	747
Cash basis net assets end of year	\$ 872	\$ 772

Total business type activities receipts for the fiscal year were \$975,000 compared to \$819,000 last year. This increase was due primarily to bond proceeds. The cash balance increased by approximately \$141,000 from the prior year. Total disbursements for the fiscal year increased by 10.2% to a total of \$875,000.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Clarion completed the year, its governmental funds reported a combined fund balance of \$2,318,000, an increase of more than \$751,000 above last year's total of \$1,566,000. 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 \$62,276 from the prior year to \$509,460. Both receipts and disbursements decreased from the prior year.

The Local Option Sales Tax Fund cash balance decreased by \$62,446 to \$276,747 during the fiscal year. This decrease was attributable to a transfer out of approximately \$157,000 during the fiscal year.

The Tax Increment Financing Fund cash balance was \$205,059, a decrease of \$282,629 from the previous year. The decrease was the result of a transfer out from the fund this year of approximately \$279,000.

The Debt Service Fund cash balance decreased by \$51,510 to \$15,002 during the fiscal year. This decrease is a result of paying off interim financing.

The 05/06 Street Project Fund cash balance increased by \$702,211 to a balance of \$525,735 at June 30, 2007. The increase is a result of bond proceeds received during the year.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Water Fund cash balance decreased by \$5,007 to \$328,395, due primarily to a transfer to the water debt service.

The Sewer Fund cash balance increased by \$8,463 to \$133,826, due primarily to increased receipts.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once on May 21, 2007. The amendment resulted in an increase in operating disbursements related to airport improvements, computer hardware/software, hiring of an additional officer, hospital growth, and various other projects involving the library, aquatic center, industrial park, street and storm sewer. 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, 2007, the City had approximately \$5,484,000 in bonds and other long-term debt, compared to approximately \$4,899,000 last year, as shown below.

**Outstanding Debt at Year-End**  
(Expressed in Thousands)

	June 30,	
	2007	2006
General obligation bonds	\$ 3,284	\$ 2,489
Special assessment bonds and notes	260	325
Revenue notes	1,715	1,835
REDLA loan	225	250
Total	<u>\$ 5,484</u>	<u>\$ 4,899</u>

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 \$3,768,877 is significantly below its constitutional debt limit of \$5,001,281.

**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 2008 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 1<sup>st</sup> 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, 2007

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
<b>FUNCTIONS/PROGRAMS:</b>				
Governmental activities:				
Public safety	\$ 678,174	\$ 216,618	\$ -	\$ -
Public works	418,022	58,848	255,856	65,078
Health and social services	5,600	-	-	-
Culture and recreation	330,504	105,130	25,875	-
Community and economic development	523,301	19,124	133,297	-
General government	203,553	-	-	-
Debt service	613,441	94,210	-	-
Capital projects	<u>365,493</u>	<u>-</u>	<u>59,704</u>	<u>61,916</u>
Total governmental activities	<u>\$3,138,088</u>	<u>\$ 493,930</u>	<u>\$ 474,732</u>	<u>\$ 126,994</u>
Business type activities:				
Water	\$ 334,468	\$ 471,791	\$ -	\$ -
Sewer rental	280,347	283,820	-	-
Water debt service	143,890	-	-	-
Other	<u>115,599</u>	<u>86,028</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$ 874,304</u>	<u>\$ 841,639</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$4,012,392</u>	<u>\$1,335,569</u>	<u>\$ 474,732</u>	<u>\$ 126,994</u>

(Continued)

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (461,556)	\$ -	\$ (461,556)
(38,240)	-	(38,240)
(5,600)	-	(5,600)
(199,499)	-	(199,499)
(370,880)	-	(370,880)
(203,553)	-	(203,553)
(519,231)	-	(519,231)
<u>(243,873)</u>	<u>-</u>	<u>(243,873)</u>
<u>\$ (2,042,432)</u>	<u>\$ -</u>	<u>\$ (2,042,432)</u>
\$ -	\$ 137,323	\$ 137,323
-	3,473	3,473
-	(143,890)	(143,890)
<u>-</u>	<u>(29,571)</u>	<u>(29,571)</u>
<u>\$ -</u>	<u>\$ (32,665)</u>	<u>\$ (32,665)</u>
<u>\$ (2,042,432)</u>	<u>\$ (32,665)</u>	<u>\$ (2,075,097)</u>

CITY OF CLARION, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

**General Receipts:**

Property tax levied for:  
    General purposes  
    Tax increment financing  
    Debt service  
Local option sales tax  
Unrestricted interest on investments  
Bond proceeds  
Bond discount  
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**

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 675,923	\$ -	\$ 675,923
362,842	-	362,842
253,823	-	253,823
242,864	-	242,864
48,879	-	48,879
984,390	125,610	1,110,000
(8,825)	-	(8,825)
<u>234,333</u>	<u>7,526</u>	<u>241,859</u>
<u>\$ 2,794,229</u>	<u>\$ 133,136</u>	<u>\$ 2,927,365</u>
\$ 751,797	\$ 100,471	\$ 852,268
<u>1,566,120</u>	<u>771,791</u>	<u>2,337,911</u>
<u><b>\$ 2,317,917</b></u>	<u><b>\$ 872,262</b></u>	<u><b>\$ 3,190,179</b></u>
\$ 167,391	\$ -	\$ 167,391
205,059	-	205,059
37,393	-	37,393
1,398,614	-	1,398,614
<u>509,460</u>	<u>872,262</u>	<u>1,381,722</u>
<u><b>\$ 2,317,917</b></u>	<u><b>\$ 872,262</b></u>	<u><b>\$ 3,190,179</b></u>

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, 2007

	<u>General</u>	<u>Special Revenue</u>	
		<u>Local Option Sales Tax</u>	<u>Tax Increment Financing</u>
<b>RECEIPTS:</b>			
Property tax	\$ 470,396	\$ -	\$ -
Tax increment financing	-	-	362,842
Other city tax	16,575	242,864	-
Licenses and permits	3,618	-	-
Use of money and property	79,985	-	-
Intergovernmental	34,363	-	133,297
Charges for service	357,334	-	-
Special assessments	-	-	19,124
Miscellaneous	130,388	-	-
Total receipts	<u>\$1,092,659</u>	<u>\$ 242,864</u>	<u>\$ 515,263</u>
<b>DISBURSEMENTS:</b>			
Operating:			
Public safety	\$ 466,333	\$ 92,371	\$ -
Public works	106,547	37,519	-
Health and social services	-	-	-
Culture and recreation	288,419	-	-
Community and economic development	288	-	518,866
General government	168,796	18,091	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>\$1,030,383</u>	<u>\$ 147,981</u>	<u>\$ 518,866</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 62,276</u>	<u>\$ 94,883</u>	<u>\$ (3,603)</u>
Other financing sources (uses):			
Bond proceeds	\$ -	\$ -	\$ -
Bond discount	-	-	-
Operating transfers in	-	-	-
Operating transfers out	-	(157,329)	(279,026)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ (157,329)</u>	<u>\$ (279,026)</u>
Net change in cash balances	\$ 62,276	\$ (62,446)	\$ (282,629)
Cash balances beginning of year	<u>447,184</u>	<u>339,193</u>	<u>487,688</u>
<b>Cash balances end of year</b>	<b><u>\$ 509,460</u></b>	<b><u>\$ 276,747</u></b>	<b><u>\$ 205,059</u></b>
Reserved for debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	509,460	-	-
Special revenue funds	-	276,747	205,059
Capital project funds	-	-	-
Permanent fund	-	-	-
<b>Total cash basis fund balances</b>	<b><u>\$ 509,460</u></b>	<b><u>\$ 276,747</u></b>	<b><u>\$ 205,059</u></b>

*See Notes to Financial Statements.*

<u>Debt Service</u>	<u>Capital Projects 05/06 Street Project</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 246,684	\$ -	\$ 182,509	\$ 899,589
-	-	-	362,842
7,139	-	6,443	273,021
-	-	-	3,618
-	-	5	79,990
-	-	371,640	539,300
-	-	-	357,334
94,210	-	-	113,334
-	-	154,904	285,292
<u>\$ 348,033</u>	<u>\$ -</u>	<u>\$ 715,501</u>	<u>\$ 2,914,320</u>
\$ -	\$ -	\$ 119,470	\$ 678,174
-	-	273,956	418,022
-	-	5,600	5,600
-	-	42,085	330,504
-	-	4,147	523,301
-	-	16,666	203,553
410,953	-	202,488	613,441
-	273,354	92,139	365,493
<u>\$ 410,953</u>	<u>\$ 273,354</u>	<u>\$ 756,551</u>	<u>\$ 3,138,088</u>
<u>\$ (62,920)</u>	<u>\$ (273,354)</u>	<u>\$ (41,050)</u>	<u>\$ (223,768)</u>
\$ -	\$ 984,390	\$ -	\$ 984,390
-	(8,825)	-	(8,825)
11,410	-	436,355	447,765
-	-	(11,410)	(447,765)
<u>\$ 11,410</u>	<u>\$ 975,565</u>	<u>\$ 424,945</u>	<u>\$ 975,565</u>
\$ (51,510)	\$ 702,211	\$ 383,895	\$ 751,797
<u>66,512</u>	<u>(176,476)</u>	<u>402,019</u>	<u>1,566,120</u>
<u>\$ 15,002</u>	<u>\$ 525,735</u>	<u>\$ 785,914</u>	<u>\$ 2,317,917</u>
\$ 15,002	\$ -	\$ -	\$ 15,002
-	-	-	509,460
-	-	319,738	801,544
-	525,735	410,740	936,475
-	-	55,436	55,436
<u>\$ 15,002</u>	<u>\$ 525,735</u>	<u>\$ 785,914</u>	<u>\$ 2,317,917</u>

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, 2007

	<b>Enterprise Funds</b>	
	<b>Water</b>	<b>Sewer Rental</b>
Operating receipts:		
Charges for service	\$ 471,791	\$ 283,820
Miscellaneous	2,342	4,990
Total operating receipts	\$ 474,133	\$ 288,810
Operating disbursements:		
Business type activities	334,468	280,347
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 139,665	\$ 8,463
Non-operating disbursements:		
Debt service	-	-
Excess (deficiency) of receipts over (under) disbursements	\$ 139,665	\$ 8,463
Other financing sources (uses):		
Bond proceeds	\$ -	\$ -
Operating transfers in	-	-
Operating transfers out	(144,672)	-
Total other financing sources (uses)	\$ (144,672)	\$ -
Net change in cash balances	\$ (5,007)	\$ 8,463
Cash balances beginning of year	333,402	125,363
<b>Cash balances end of year</b>	<b>\$ 328,395</b>	<b>\$ 133,826</b>
Cash Basis Fund Balances:		
Reserved for debt service	\$ -	\$ -
Unreserved	328,395	133,826
<b>Total cash basis fund balances</b>	<b>\$ 328,395</b>	<b>\$ 133,826</b>

*See Notes to Financial Statements.*

<u>Other Nonmajor Enterprise Fund</u>	<u>Total</u>
\$ 86,028	\$ 841,639
194	7,526
<u>\$ 86,222</u>	<u>\$ 849,165</u>
<u>115,599</u>	<u>730,414</u>
\$ (29,377)	\$ 118,751
<u>(143,890)</u>	<u>(143,890)</u>
<u>\$ (173,267)</u>	<u>\$ (25,139)</u>
\$ 125,610	\$ 125,610
144,672	144,672
-	(144,672)
<u>\$ 270,282</u>	<u>\$ 125,610</u>
\$ 97,015	\$ 100,471
<u>313,026</u>	<u>771,791</u>
<u><b>\$ 410,041</b></u>	<u><b>\$ 872,262</b></u>
\$ 219,642	\$ 219,642
190,399	652,620
<u><b>\$ 410,041</b></u>	<u><b>\$ 872,262</b></u>

CITY OF CLARION, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

(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.

CITY OF CLARION, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

(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 not meeting 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 not paid from other funds.

Special Revenue:

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.

CITY OF CLARION, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

(1) Summary of Significant Accounting Policies - continued

Capital Projects:

The 05/06 Street Project Fund accounts for street improvements.

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.

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, 2007, disbursements exceeded the amounts budgeted in the public works and debt service functions.

(2) Cash and Investments

The City's deposits in banks at June 30, 2007 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.

CITY OF CLARION, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2007

(2) Cash and Investments - continued

At June 30, 2007, the City had the following investments:

	Carrying Amount	Fair Value
U.S. Savings Bond	<u>\$ 4,500</u>	<u>\$ 4,500</u>

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) 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 and Notes Payable

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

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Bonds and Notes		Special Assessment Bonds and Notes		Other Loans	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$1,447,029	\$146,169	\$ 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	<u>\$3,283,877</u>	<u>\$443,868</u>	<u>\$1,715,000</u>	<u>\$541,162</u>	<u>\$260,000</u>	<u>\$ 37,015</u>	<u>\$225,000</u>	<u>\$ -</u>

Year Ending June 30,	Total	
	Principal	Interest
2008	\$1,657,029	\$ 241,122
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	<u>\$5,483,877</u>	<u>\$1,022,045</u>

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.

CITY OF CLARION, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

(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.
- (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.

CITY OF CLARION, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2007

(3) **Bonds and Notes Payable** - continued

- (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, 2007, 2006 and 2005 were \$53,968, \$50,795 and \$46,933, respectively, 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, 2007, primarily relating to the General Fund is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 63,303
Comp time	22,145
Total	<u>\$ 85,448</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

**CITY OF CLARION, IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**(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,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>19,871</u>	<u>108</u>	<u>19,979</u>
Total	<u>\$1,769,942</u>	<u>\$ 647,557</u>	<u>\$2,417,499</u>

**(7) Deficit Balances**

The Capital Projects, CDBG Fund had a deficit balance of \$225 at June 30, 2007. 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, Highway 3 Project Fund had a deficit balance of \$110 at June 30, 2007. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon future receipts.

CITY OF CLARION, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2007

(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, 2007, the City of Clarion paid the Authority \$92,750 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, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:		
Tax increment financing debt	Special Revenue:	
	Tax increment financing	<u>\$204,026</u>
	Capital Projects:	
	Library building project	\$ 20,000
	Swimming pool project	55,000
		<u>\$ 75,000</u>
Debt Service	Special Revenue:	
	Emergency levy	<u>\$ 11,410</u>
Capital Projects:		
Swimming pool project	Special Revenue:	
	Local option sales tax	<u>\$155,000</u>
Highway 3 Project	Special Revenue:	
	Local option sales tax	<u>\$ 2,284</u>
Library building project	Special Revenue:	
	Local option sales tax	<u>\$ 45</u>
Enterprise:	Enterprise:	
Water debt service	Water	<u>\$144,672</u>
Total		<u>\$592,437</u>

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

CITY OF CLARION, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2007

(10) Risk Management

The City 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, 2007, the following construction commitments had been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred to Date</u>
Pool	\$1,548,450	\$1,455,171
06/07 Storm Sewer	118,610	8,596
6 <sup>th</sup> Street Project	831,687	294,595
	<u>\$2,498,747</u>	<u>\$1,758,362</u>

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, 2007

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Less Funds Not Required To Be Budgeted</u>
<b>RECEIPTS:</b>			
Property tax	\$ 899,589	\$ -	\$ -
Tax increment financing	362,842	-	-
Other city tax	273,021	-	-
Licenses and permits	3,618	-	-
Use of money and property	79,990	-	-
Intergovernmental	539,300	-	-
Charges for service	357,334	841,639	-
Special assessments	113,334	-	-
Miscellaneous	285,292	7,526	-
Total receipts	<u>\$ 2,914,320</u>	<u>\$ 849,165</u>	<u>\$ -</u>
<b>DISBURSEMENTS:</b>			
Public safety	\$ 678,174	\$ -	\$ -
Public works	418,022	-	-
Health and social services	5,600	-	-
Culture and recreation	330,504	-	-
Community and economic development	523,301	-	-
General government	203,553	-	-
Debt service	613,441	143,890	-
Capital projects	365,493	-	-
Business type activities	-	730,414	-
Total disbursements	<u>\$ 3,138,088</u>	<u>\$ 874,304</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (223,768)	\$ (25,139)	\$ -
Other financing sources, net	<u>975,565</u>	<u>125,610</u>	<u>-</u>
Excess of receipts and other financing sources over disbursements and other financing uses	\$ 751,797	\$ 100,471	\$ -
Balances beginning of year	<u>1,566,120</u>	<u>771,791</u>	<u>-</u>
<b>Balances end of year</b>	<u><b>\$ 2,317,917</b></u>	<u><b>\$ 872,262</b></u>	<u><b>\$ -</b></u>

*See Accompanying Independent Auditor's Report.*

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 899,589	\$ 896,532	\$ 896,532	\$ 3,057
362,842	358,559	358,559	4,283
273,021	252,381	252,381	20,640
3,618	22,850	22,850	(19,232)
79,990	72,840	72,840	7,150
539,300	269,953	269,953	269,347
1,198,973	26,096,349	26,096,349	(24,897,376)
113,334	95,643	95,643	17,691
292,818	108,368	108,368	184,450
<u>\$ 3,763,485</u>	<u>\$28,173,475</u>	<u>\$ 28,173,475</u>	<u>\$(24,409,990)</u>
\$ 678,174	\$ 578,246	\$ 690,796	\$ 12,622
418,022	350,030	392,030	(25,992)
5,600	-	6,000	400
330,504	309,632	346,632	16,128
523,301	359,190	784,190	260,889
203,553	239,229	284,229	80,676
757,331	378,121	378,121	(379,210)
365,493	20,000	1,814,000	1,448,507
730,414	25,865,339	43,027,739	42,297,325
<u>\$ 4,012,392</u>	<u>\$28,099,787</u>	<u>\$ 47,723,737</u>	<u>\$ 43,711,345</u>
\$ (248,907)	\$ 73,688	\$(19,550,262)	\$ 19,301,355
<u>1,101,175</u>	<u>-</u>	<u>19,623,950</u>	<u>(18,522,775)</u>
\$ 852,268	\$ 73,688	\$ 73,688	\$ 778,580
<u>2,337,911</u>	<u>2,665,252</u>	<u>2,665,252</u>	<u>(327,341)</u>
<u>\$ 3,190,179</u>	<u>\$ 2,738,940</u>	<u>\$ 2,738,940</u>	<u>\$ 451,239</u>

**CITY OF CLARION, IOWA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING**  
**JUNE 30, 2007**

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 Governmental 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, 2007, disbursements exceeded the amounts budgeted in the public works 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, 2007

	<u>Special Revenue</u>				
	<u>Road Use Tax</u>	<u>Employee Benefit</u>	<u>Emergency Levy</u>	<u>Tax Increment Financing Debt</u>	<u>Library Improvement</u>
<b>RECEIPTS:</b>					
Property tax	\$ -	\$ 171,580	\$ 10,929	\$ -	\$ -
Other city tax	-	5,962	481	-	-
Use of money and property	-	-	-	-	5
Intergovernmental	247,367	-	-	-	3,812
Miscellaneous	-	18,800	-	-	6,734
Total receipts	<u>\$ 247,367</u>	<u>\$ 196,342</u>	<u>\$ 11,410</u>	<u>\$ -</u>	<u>\$ 10,551</u>
<b>DISBURSEMENTS:</b>					
Operating:					
Public safety	\$ -	\$ 119,470	\$ -	\$ -	\$ -
Public works	241,558	32,398	-	-	-
Health and social services	5,600	-	-	-	-
Culture and recreation	-	39,732	-	-	2,353
Community and economic development	-	-	-	4,147	-
General government	-	16,666	-	-	-
Debt service	-	-	-	177,488	-
Capital projects	-	-	-	-	-
Total disbursements	<u>\$ 247,158</u>	<u>\$ 208,266</u>	<u>\$ -</u>	<u>\$ 181,635</u>	<u>\$ 2,353</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 209</u>	<u>\$ (11,924)</u>	<u>\$ 11,410</u>	<u>\$ (181,635)</u>	<u>\$ 8,198</u>
Other financing sources (uses):					
Operating transfers in	\$ -	\$ -	\$ -	\$ 204,026	\$ -
Operating transfers out	-	-	(11,410)	-	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (11,410)</u>	<u>\$ 204,026</u>	<u>\$ -</u>
Net change in cash balances	\$ 209	\$ (11,924)	\$ -	\$ 22,391	\$ 8,198
Cash balances beginning of year	<u>167,160</u>	<u>90,552</u>	<u>6,422</u>	<u>-</u>	<u>36,730</u>
<b>Cash balances end of year</b>	<b><u>\$ 167,369</u></b>	<b><u>\$ 78,628</u></b>	<b><u>\$ 6,422</u></b>	<b><u>\$ 22,391</u></b>	<b><u>\$ 44,928</u></b>
<b>Cash Basis Fund Balances:</b>					
Unreserved:					
Special revenue funds	\$ 167,369	\$ 78,628	\$ 6,422	\$ 22,391	\$ 44,928
Capital project funds	-	-	-	-	-
Permanent fund	-	-	-	-	-
<b>Total cash basis fund balances</b>	<b><u>\$ 167,369</u></b>	<b><u>\$ 78,628</u></b>	<b><u>\$ 6,422</u></b>	<b><u>\$ 22,391</u></b>	<b><u>\$ 44,928</u></b>

*See Accompanying Independent Auditor's Report.*

Capital Projects					Permanent	
CDBG	Highway 3 Project	Community Center Project	Library Building Project	Swimming Pool Project	Cemetery Perpetual Care	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 182,509
-	-	-	-	-	-	6,443
-	-	-	-	-	-	5
58,545	-	-	-	61,916	-	371,640
1,159	-	-	77,753	49,000	1,458	154,904
<u>\$ 59,704</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,753</u>	<u>\$ 110,916</u>	<u>\$ 1,458</u>	<u>\$ 715,501</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 119,470
-	-	-	-	-	-	273,956
-	-	-	-	-	-	5,600
-	-	-	-	-	-	42,085
-	-	-	-	-	-	4,147
-	-	-	-	-	-	16,666
-	-	-	-	25,000	-	202,488
32,517	2,394	612	18,313	38,303	-	92,139
<u>\$ 32,517</u>	<u>\$ 2,394</u>	<u>\$ 612</u>	<u>\$ 18,313</u>	<u>\$ 63,303</u>	<u>\$ -</u>	<u>\$ 756,551</u>
<u>\$ 27,187</u>	<u>\$ (2,394)</u>	<u>\$ (612)</u>	<u>\$ 59,440</u>	<u>\$ 47,613</u>	<u>\$ 1,458</u>	<u>\$ (41,050)</u>
\$ -	\$ 2,284	\$ -	\$ 20,045	\$ 210,000	\$ -	\$ 436,355
-	-	-	-	-	-	(11,410)
<u>\$ -</u>	<u>\$ 2,284</u>	<u>\$ -</u>	<u>\$ 20,045</u>	<u>\$ 210,000</u>	<u>\$ -</u>	<u>\$ 424,945</u>
\$ 27,187	\$ (110)	\$ (612)	\$ 79,485	\$ 257,613	\$ 1,458	\$ 383,895
(27,412)	-	160,000	(16,036)	(69,375)	53,978	402,019
<u>\$ (225)</u>	<u>\$ (110)</u>	<u>\$ 159,388</u>	<u>\$ 63,449</u>	<u>\$ 188,238</u>	<u>\$ 55,436</u>	<u>\$ 785,914</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 319,738
(225)	(110)	159,388	63,449	188,238	-	410,740
-	-	-	-	-	55,436	55,436
<u>\$ (225)</u>	<u>\$ (110)</u>	<u>\$ 159,388</u>	<u>\$ 63,449</u>	<u>\$ 188,238</u>	<u>\$ 55,436</u>	<u>\$ 785,914</u>

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, 2007

	<u>Water Debt Service</u>	<u>Water Bond Reserve</u>	<u>Storm Sewer Permits</u>	<u>Landfill</u>
Operating receipts:				
Charges for service	\$ -	\$ -	\$ -	\$ 86,028
Miscellaneous	-	-	-	194
Total operating receipts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,222</u>
Operating disbursements:				
Business type activities	-	-	10,631	104,968
Deficiency of operating receipts under operating disbursements	\$ -	\$ -	\$ (10,631)	\$ (18,746)
Non-operating disbursements:				
Debt service	<u>(143,890)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deficiency of receipts under disbursements	<u>\$ (143,890)</u>	<u>\$ -</u>	<u>\$ (10,631)</u>	<u>\$ (18,746)</u>
Other financing sources:				
Bond proceeds	\$ -	\$ -	\$ 125,610	\$ -
Operating transfers in	<u>144,672</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>\$ 144,672</u>	<u>\$ -</u>	<u>\$ 125,610</u>	<u>\$ -</u>
Net change in cash balances	\$ 782	\$ -	\$ 114,979	\$ (18,746)
Cash balances beginning of year	<u>133,860</u>	<u>85,000</u>	<u>150</u>	<u>94,016</u>
<b>Cash balances end of year</b>	<b><u>\$ 134,642</u></b>	<b><u>\$ 85,000</u></b>	<b><u>\$ 115,129</u></b>	<b><u>\$ 75,270</u></b>
<b>Cash Basis Fund Balances:</b>				
Reserved for debt service	\$ 134,642	\$ 85,000	\$ -	\$ -
Unreserved	<u>-</u>	<u>-</u>	<u>115,129</u>	<u>75,270</u>
<b>Total cash basis fund balances</b>	<b><u>\$ 134,642</u></b>	<b><u>\$ 85,000</u></b>	<b><u>\$ 115,129</u></b>	<b><u>\$ 75,270</u></b>

See Accompanying Independent Auditor's Report.

<u><b>Total</b></u>	
\$	86,028
	<u>194</u>
\$	86,222
	<u>115,599</u>
\$	(29,377)
	<u>(143,890)</u>
\$	<u>(173,267)</u>
\$	125,610
	<u>144,672</u>
\$	<u>270,282</u>
\$	97,015
	<u>313,026</u>
<b>\$</b>	<b><u>410,041</u></b>
\$	219,642
	<u>190,399</u>
<b>\$</b>	<b><u>410,041</u></b>

CITY OF CLARION, IOWA  
 SCHEDULE OF INDEBTEDNESS  
 YEAR ENDED JUNE 30, 2007

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
<b>General Obligation Bonds and Notes:</b>			
Capital Loan Notes	12-15-92	5.90%	\$ 295,000
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
Capital Loan Anticipation Notes	5-24-07	3.90	1,110,000
<b>Special Assessment Notes:</b>			
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
<b>Urban Renewal Revenue Annual Appropriation Capital Loan Notes</b>			
	9-1-05	4.45%	\$ 950,000
<b>Revenue Bonds and Notes:</b>			
Water	7-01-76	5.00%	\$1,100,000
Water Capital Loan Notes	4-01-99	4.15 - 5.35	850,000
<b>Rural Economic Development Loan Agreement</b>			
	11-21-05	0.00%	\$ 250,000
Subtotal - City's share			
<b>Capital Lease:</b>			
Meadows Facility	12-01-92	5.50 - 8.00%	\$3,050,000
<b>Total indebtedness</b>			

*See Accompanying Independent Auditor's Report.*

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 159,137	\$ -	\$ 25,260	\$ 133,877	\$ 8,671	\$ -
140,000	-	45,000	95,000	6,538	-
200,000	-	45,000	155,000	10,785	-
360,000	-	85,000	275,000	19,542	-
350,000	-	50,000	300,000	16,680	-
310,000	-	45,000	265,000	14,630	-
970,000	-	20,000	950,000	38,238	-
-	1,110,000	-	1,110,000	-	-
<u>\$2,489,137</u>	<u>\$1,110,000</u>	<u>\$ 315,260</u>	<u>\$3,283,877</u>	<u>\$ 115,084</u>	<u>\$ -</u>
\$ 45,000	\$ -	\$ 15,000	\$ 30,000	\$ 2,228	\$ -
40,000	-	10,000	30,000	2,340	-
120,000	-	30,000	90,000	6,165	-
120,000	-	10,000	110,000	5,025	-
<u>\$ 325,000</u>	<u>\$ -</u>	<u>\$ 65,000</u>	<u>\$ 260,000</u>	<u>\$ 15,758</u>	<u>\$ -</u>
\$ 665,000	\$ -	\$ 35,000	\$ 630,000	\$ 29,593	\$ -
\$ 545,000	\$ -	\$ 40,000	\$ 505,000	\$ 27,250	\$ -
625,000	-	45,000	580,000	31,320	-
<u>\$1,170,000</u>	<u>\$ -</u>	<u>\$ 85,000</u>	<u>\$1,085,000</u>	<u>\$ 58,570</u>	<u>\$ -</u>
\$ 250,000	\$ -	\$ 25,000	\$ 225,000	\$ -	\$ -
<u>\$4,899,137</u>	<u>\$1,110,000</u>	<u>\$ 525,260</u>	<u>\$5,483,877</u>	<u>\$ 219,005</u>	<u>\$ -</u>
\$1,996,147	\$ -	\$ 119,328	\$1,876,819	\$ 120,424	\$ -
<u><b>\$6,895,284</b></u>	<u><b>\$1,110,000</b></u>	<u><b>\$ 644,588</b></u>	<u><b>\$7,360,696</b></u>	<u><b>\$ 339,429</b></u>	<u><b>\$ -</b></u>

CITY OF CLARION, IOWA  
BOND AND NOTE MATURITIES  
JUNE 30, 2007

GENERAL OBLIGATION

Capital Loan Notes

Year Ending June 30,	<u>Issued December 15, 1992</u>		<u>Issued February 1, 2000</u>		<u>Issued May 1, 2000</u>	
	Interest		Interest		Interest	
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>
2008	5.90%	\$ 27,029	5.35%	\$ 50,000	5.40%	\$ 85,000
2009	5.90	28,921	5.40	50,000	5.45	90,000
2010	5.90	30,945	5.50	55,000	5.50	100,000
2011	5.90	33,111	-	-	-	-
2012	5.90	13,871	-	-	-	-
2013	-	-	-	-	-	-
2014	-	-	-	-	-	-
2015	-	-	-	-	-	-
<b>Total</b>		<b><u>\$133,877</u></b>		<b><u>\$155,000</u></b>		<b><u>\$ 275,000</u></b>

GENERAL OBLIGATION BONDS AND NOTES

Capital Loan Anticipation Notes

Year Ending June 30,	<u>Issued August 1, 1998</u>		<u>Issued May 24, 2007</u>		<u>Total</u>
	Interest		Interest		
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	
2008	4.65%	\$ 45,000	3.90%	\$1,110,000	\$ 1,447,029
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
<b>Total</b>		<b><u>\$ 95,000</u></b>		<b><u>\$1,110,000</u></b>	<b><u>\$ 3,283,877</u></b>

(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		Interest		Interest	
Rates	Amount	Rates	Amount	Rates	Amount
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
	<u>\$300,000</u>		<u>\$265,000</u>		<u>\$950,000</u>

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

Year Ending June 30	Water		Water Capital Loan Note		Total
	Issued July 1, 1976		Issued April 1, 1999		
	Interest Rates	Amount	Interest Rates	Amount	
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		<u>\$505,000</u>		<u>\$580,000</u>	<u>\$1,085,000</u>

CITY OF CLARION, IOWA  
BOND AND NOTE MATURITIES  
JUNE 30, 2007

S P E C I A L   A S S E S S M E N T

Year Ending June 30	Roadway/Utility Improvement		Street Improvements			
	Issued November 1, 1998		Issued February 1, 2000		Issued May 1, 2000	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
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		-		-		-
<b>Total</b>		<b>\$ 30,000</b>		<b>\$ 30,000</b>		<b>\$ 90,000</b>

Year Ending June 30	Urban Renewal Revenue Annual Appropriation Capital Loan Notes		Rural Economic Development Loan Agreement	
	Issued September 1, 2005		Issued November 21, 2005	
	Interest Rates	Amount	Interest Rates	Amount
2008	4.45%	\$ 35,000	0%	\$ 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		-
<b>Total</b>		<b>\$630,000</b>		<b>\$225,000</b>

See Accompanying Independent Auditor's Report.

NOTES

Issued October 1, 2004

Interest

<u>Rates</u>	<u>Amount</u>	<u>Total</u>
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
	<u>\$ 110,000</u>	<u>\$ 260,000</u>

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:					
Property tax	\$ 899,589	\$ 922,979	\$ 906,335	\$ 803,611	\$ 892,717
Tax increment financing	362,842	371,856	376,982	312,304	363,415
Other city tax	273,021	191,882	265,184	192,088	169,396
Licenses and permits	3,618	6,285	4,617	5,507	5,176
Use of money and property	79,990	76,866	66,533	56,817	55,528
Intergovernmental	539,300	525,710	479,669	288,939	327,171
Charges for service	357,334	530,990	382,081	198,059	173,370
Special assessments	113,334	142,873	257,755	250,396	146,587
Miscellaneous	285,292	353,879	177,494	209,806	273,752
Total	<u>\$ 2,914,320</u>	<u>\$3,123,320</u>	<u>\$2,916,650</u>	<u>\$2,317,527</u>	<u>\$2,407,112</u>
Disbursements:					
Operating:					
Public safety	\$ 678,174	\$ 671,442	\$ 567,306	\$ 536,686	\$ 534,728
Public works	418,022	686,333	610,639	1,259,778	268,437
Health and social services	5,600	5,600	-	-	-
Culture and recreation	330,504	301,154	299,356	303,255	288,829
Community and economic development	523,301	185,926	70,848	172,148	443,805
General government	203,553	159,698	195,578	197,765	214,565
Debt Service	613,441	944,070	597,032	581,359	590,099
Capital projects	365,493	1,662,436	538,813	-	86,460
Total	<u>\$ 3,138,088</u>	<u>\$4,616,659</u>	<u>\$2,879,572</u>	<u>\$3,050,991</u>	<u>\$2,426,923</u>

*See Accompanying Independent Auditor's Report.*



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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:

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, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated August 21, 2007. My report expressed qualified opinions 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 as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of Clarion's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Clarion's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies and other deficiencies I consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Clarion's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Clarion's financial statements that is more than inconsequential will not be prevented or detected by the City of Clarion's internal control. I consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Clarion's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I believe items II-A-07, II-B-07, and II-C-07 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, 2007 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.

The City of Clarion's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City's responses, I did not audit the City of Clarion's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of 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 21, 2007

CITY OF CLARION, IOWA  
Schedule of Findings  
Year Ended June 30, 2007

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

- (a) Qualified opinions were 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) Significant deficiencies 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:**

**SIGNIFICANT DEFICIENCIES:**

II-A-07     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-07     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.

II-C-07     Bank Signature Cards - I noted that the bank signature cards were not current.

Recommendation - All bank authorized signature cards should be reviewed and updated. Only current City employees, board members, or council members should be authorized signers.

Response - We will review all signature cards and update them per guidelines recommended.

Conclusion - Response accepted.

CITY OF CLARION, IOWA  
Schedule of Findings  
Year Ended June 30, 2007

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**Part III: Findings and Questioned Costs for Federal Awards:**

Not applicable

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

IV-A-07      Certified Budget - Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the public works and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

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

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

Conclusion - Response accepted.

IV-B-07      Questionable Disbursements - No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-07      Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-07      Business Transactions - No business transactions between the City and City officials or employees were noted.

IV-E-07      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.

IV-F-07      Council Minutes - Although minutes of Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Also, the minutes did not include a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation - The City should publish minutes as required.

Response - We will publish minutes as required.

Conclusion - Response accepted.

IV-G-07      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.

**CITY OF CLARION, IOWA**  
**Schedule of Findings**  
**Year Ended June 30, 2007**

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

IV-H-07      Other Information Required by Bond and Note Resolutions - The following insurance policies were in force at June 30, 2007:

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>
Employers Mutual Casualty	Commercial property	\$5,920,416	April 1, 2008
Employers Mutual Casualty	General liability:		
	General aggregate limit	\$2,000,000	April 1, 2008
	Products/complete operation	2,000,000	April 1, 2008
	Personal and/or advertising		
	Injury limit	1,000,000	April 1, 2008
	Each occurrence limit	1,000,000	April 1, 2008
	Fire damage limit	100,000	April 1, 2008
	Medical expense limit	5,000	April 1, 2008
Employers Mutual Casualty	Inland marine:		
	Contractor's equipment	\$ 526,800	April 1, 2008
	Valuable papers and records	Various	April 1, 2008
Employers Mutual Casualty	Commercial Automobile:		
	Liability	\$1,000,000	April 1, 2008
	Auto medical payments	5,000	April 1, 2008
	Uninsured motorists	50,000	April 1, 2008
	Underinsured motorists	50,000	April 1, 2008
	Comprehensive	Actual cash value or cost of repairs whichever is less minus deductible as shown on schedule for each covered auto	April 1, 2008
	Collision	Actual cash value or cost of repairs whichever is less minus deductible as shown on schedule for each covered auto	April 1, 2008
Employers Mutual Casualty	Commercial Crime -		
	Inside premises	\$ 25,000	April 1, 2008
	Commercial Crime -		
	Outside premises	25,000	April 1, 2008
	Public Employee Dishonesty	175,000	April 1, 2008
	Forgery/Alteration	10,000	April 1, 2008
Employers Mutual Casualty	Commercial Umbrella:		
	Occurrence limit	\$5,000,000	April 1, 2008
	Aggregate limit	5,000,000	April 1, 2008

CITY OF CLARION, IOWA  
 Schedule of Findings  
 Year Ended June 30, 2007

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

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>
Employers Mutual Casualty	Linebacker:		
	Occurrence limit	\$1,000,000	April 1, 2008
	Aggregate limit	1,000,000	April 1, 2008
US Specialty Insurance Co.	General Liability:		
	Airport	\$1,000,000	May 7, 2008
Iowa Municipalities Workers' Compensation Association	Workers' Compensation Self Insurance Retention: Each occurrence	\$1,000,000	July 1, 2008

IV-I-07     Financial Condition - The Capital Projects Fund, CDBG and Highway 3 Project had deficit balances at June 30, 2007 of \$225 and \$110, 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.

