

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

JUNE 30, 2009

- 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	January 2010
Kirk Rier	Mayor Pro tem	January 2010
Darren Bierl	Council Member	January 2010
Francis Stumpf	Council Member	January 2010
Steve Evans	Council Member	January 2012
Lindsey German	Council Member	January 2012
Vicky Boyington	City Administrator/Clerk	January 2010
Duane Asbe	Treasurer	Indefinite
Robert Brinton	Attorney	January 2010



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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, 2009, 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 Wright Medical Center, 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 Wright Medical Center 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, 2009, 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 September 16, 2009 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 28 through 30 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 three years ended June 30, 2008 and the year 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 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.



September 30, 2009

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, 2009. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 89.7%, or approximately \$2,574,000 from fiscal 2008 to fiscal 2009. Note proceeds and capital grants, contributions and restricted interest increased approximately \$2,260,000 and \$169,000, respectively, while charges for service and operating grants, contributions and restricted interest decreased approximately \$132,000 and \$17,000, respectively.

Disbursements of the City's governmental activities increased 77.1%, or approximately \$2,626,000, in fiscal 2009 from fiscal 2008. Public safety, debt service and capital projects disbursements increased approximately \$324,000, \$1,481,000 and \$547,000, respectively.

The City's total cash basis net assets decreased 22.6%, or approximately \$573,000, from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities decreased approximately \$593,000 and the assets of the business type activities increased by approximately \$20,000.

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 and proprietary 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 Funds 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 decreased from a year ago, decreasing from approximately \$1,772,000 to approximately \$1,179,000. 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>2009</u>	<u>2008</u>
Receipts:		
Program receipts:		
Charges for service	\$ 590	\$ 722
Operating grants, contributions and restricted interest	294	311
Capital grants, contributions and restricted interest	169	-
General receipts:		
Property tax	1,416	1,328
Local option sales tax	225	227
Unrestricted interest on investments	51	54
Note proceeds, net	2,260	-
Other general receipts	439	228
Total receipts	<u>\$5,444</u>	<u>\$2,870</u>
Disbursements:		
Public safety	\$1,057	\$ 733
Public works	733	532
Health and social services	7	7
Culture and recreation	375	336
Community and economic development	111	112
General government	321	286
Debt service	2,132	651
Capital projects	<u>1,296</u>	<u>749</u>
Total disbursements	<u>\$6,032</u>	<u>\$3,406</u>
Change in cash basis net assets before transfers	\$ (588)	\$ (536)
Transfers, net	<u>(5)</u>	<u>(10)</u>
Change in cash basis net assets	\$ (593)	\$ (546)
Cash basis net assets beginning of year	<u>1,772</u>	<u>2,318</u>
Cash basis net assets end of year	<u>\$1,179</u>	<u>\$1,772</u>

The City's total receipts for governmental activities increased by 89.7%, or approximately \$2,574,000. The total cost of all programs and services increased by approximately \$2,626,000, or 77.1%. The increase in receipts was primarily the result of proceeds received from the issuance of notes and capital grants, contributions and restricted interest. The increase in disbursements was due primarily to several capital projects.

The cost of all governmental activities this year was approximately \$6,032,000 compared to approximately \$3,406,000 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 \$4,979,000 because some of the cost was paid by those directly benefited from the programs (\$590,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$463,000).

Overall, the City's governmental activities receipts, including governmental aid and fees for service, increased in 2009 from approximately \$2,870,000 to approximately \$5,444,000. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$1,641,000 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)

	<u>Year ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 498	\$ 473
Sewer rental	286	284
Other	86	87
Operating grants, contributions and restricted interest	5	-
General receipts:		
Other general receipts	10	11
Total receipts	<u>\$ 885</u>	<u>\$ 855</u>
Disbursements:		
Water	\$ 323	\$ 339
Sewer rental	303	298
Water debt service	141	139
Other	103	201
Total disbursements	<u>\$ 870</u>	<u>\$ 977</u>
Change in cash basis net assets before transfers	\$ 15	\$ (122)
Transfers, net	<u>5</u>	<u>10</u>
Change in cash basis net assets	\$ 20	\$ (112)
Cash basis net assets beginning of year	<u>760</u>	<u>872</u>
Cash basis net assets end of year	<u>\$ 780</u>	<u>\$ 760</u>

Total business type activities receipts for the fiscal year were approximately \$885,000 compared to approximately \$855,000 last year. This increase was due primarily to additional charges for service for water during the year. The cash balance increased by approximately \$20,000 from the prior year. Total disbursements for the fiscal year decreased by 11.0% to a total of approximately \$870,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Clarion completed the year, its governmental funds reported a combined fund balance of \$1,179,201, a decrease of more than \$592,000 below last year's total of \$1,771,861. 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 \$119,766 from the prior year to \$299,361. Both receipts and disbursements increased from the prior year.

The Special Revenue, Local Option Sales Tax Fund cash balance decreased by \$161,860 to \$192,194 during the fiscal year. This decrease was attributable to large equipment purchases and renovation of City Hall.

The Special Revenue, Tax Increment Financing Fund cash balance was \$270,100, a decrease of \$44,292 from the previous year. The decrease was the result of a transfer out of \$178,821 to pay for construction costs.

The Debt Service Fund cash balance decreased by \$12,952 to \$(50,263) during the fiscal year. This decrease is a result of paying off interim financing.

The Capital Projects, Community Center Fund cash balance remained unchanged at \$159,388 at June 30, 2009, due to no activity during the year.

The Capital Projects, Library Building Project Fund cash balance was \$79,201, an increase of \$25,537 from the previous year. The increase was a result of proceeds of \$950,000 received from the issuance of an urban renewal revenue note.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased by \$39,690 to \$363,898, due primarily to an increase in the sale of water and reductions in operating disbursements from the prior year.

The Water Debt Service Fund cash balance was \$155,671, an increase of \$20,149 from the previous year. This increase was due to transfers in from other funds.

The Sewer Rental Fund cash balance decreased by \$39,387 to \$88,148, due primarily to transfers out.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once on August 18, 2008. The amendment resulted in an increase in operating disbursements related to ambulance and airport growth, storm sirens and a new roof at City Hall.

The City exceeded the amounts budgeted in the public works, health and social services, culture and recreation, general government, debt service and capital projects functions for the year ended June 30, 2009.

DEBT ADMINISTRATION

At June 30, 2009, the City had approximately \$5,188,000 in bonds and other long-term debt outstanding, compared to approximately \$4,937,000 last year, as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2009	2008
General obligation notes	\$ 2,523	\$ 2,947
Special assessment notes	130	195
Revenue notes	2,360	1,595
REDLA loan	175	200
Total	<u>\$ 5,188</u>	<u>\$ 4,937</u>

Debt increased as a result of issuing general obligation notes. In addition, the City issued an urban renewal revenue note for purpose of the library building project.

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 \$2,827,927 is significantly below its constitutional debt limit of \$5,448,170.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Clarion's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates and fees charged for various City activities. One of those factors is the economy.

Clarion's Chamber/Development Partnership for Growth organization and the City of Clarion continue as team players in providing economic development opportunities.

The newly constructed aquatic center continues to be a shining star for Clarion and the expansion of the library building is set to open in September of 2009.

The building of a police/ambulance building is progressing with opening scheduled for the spring of 2010.

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, 2009

	<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>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$1,056,896	\$ 277,682	\$ 8,487	\$ -
Public works	733,152	137,611	246,254	-
Health and social services	7,022	-	-	-
Culture and recreation	375,492	83,124	30,475	69,355
Community and economic development	110,772	-	447	-
General government	321,126	5,955	7,000	99,779
Debt service	2,131,873	85,978	-	-
Capital projects	<u>1,295,715</u>	<u>-</u>	<u>948</u>	<u>-</u>
Total governmental activities	<u>\$6,032,048</u>	<u>\$ 590,350</u>	<u>\$ 293,611</u>	<u>\$ 169,134</u>
Business type activities:				
Water	\$ 322,988	\$ 498,580	\$ 145	\$ -
Sewer rental	303,596	286,127	4,441	-
Water debt service	140,768	-	-	-
Other	<u>103,004</u>	<u>85,996</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$ 870,356</u>	<u>\$ 870,703</u>	<u>\$ 4,586</u>	<u>\$ -</u>
Total	<u>\$6,902,404</u>	<u>\$1,461,053</u>	<u>\$ 298,197</u>	<u>\$ 169,134</u>

(Continued)

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (770,727)	\$ -	\$ (770,727)
(349,287)	-	(349,287)
(7,022)	-	(7,022)
(192,538)	-	(192,538)
(110,325)	-	(110,325)
(208,392)	-	(208,392)
(2,045,895)	-	(2,045,895)
<u>(1,294,767)</u>	<u>-</u>	<u>(1,294,767)</u>
<u>\$ (4,978,953)</u>	<u>\$ -</u>	<u>\$ (4,978,953)</u>
\$ -	\$ 175,737	\$ 175,737
-	(13,028)	(13,028)
-	(140,768)	(140,768)
<u>-</u>	<u>(17,008)</u>	<u>(17,008)</u>
<u>\$ -</u>	<u>\$ 4,933</u>	<u>\$ 4,933</u>
<u>\$ (4,978,953)</u>	<u>\$ 4,933</u>	<u>\$ (4,974,020)</u>

CITY OF CLARION, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

General Receipts:

Property and other city tax levied for:
 General purposes
 Debt service
Tax increment financing
Local option sales tax
Unrestricted interest on investments
Note proceeds, net
Miscellaneous
Transfers

Total general receipts and transfers

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>
\$ 713,910	\$ -	\$ 713,910
246,037	-	246,037
456,344	-	456,344
224,715	-	224,715
51,625	-	51,625
2,259,888	-	2,259,888
438,857	10,119	448,976
<u>(5,083)</u>	<u>5,083</u>	<u>-</u>
<u>\$ 4,386,293</u>	<u>\$ 15,202</u>	<u>\$4,401,495</u>
\$ (592,660)	\$ 20,135	\$ (572,525)
<u>1,771,861</u>	<u>759,941</u>	<u>2,531,802</u>
<u>\$ 1,179,201</u>	<u>\$ 780,076</u>	<u>\$1,959,277</u>
\$ 47,174	\$ -	\$ 47,174
270,100	-	270,100
-	240,671	240,671
612,829	-	612,829
<u>249,098</u>	<u>539,405</u>	<u>788,503</u>
<u>\$ 1,179,201</u>	<u>\$ 780,076</u>	<u>\$1,959,277</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, 2009

	<u>General</u>	<u>Special Revenue</u>	
		<u>Local Option Sales Tax</u>	<u>Tax Increment Financing</u>
RECEIPTS:			
Property tax	\$ 482,533	\$ -	\$ -
Tax increment financing	-	-	456,344
Other city tax	-	224,715	-
Licenses and permits	5,955	-	-
Use of money and property	87,005	-	-
Intergovernmental	142,540	-	447
Charges for service	488,657	-	-
Special assessments	-	-	-
Miscellaneous	62,326	-	23,500
Total receipts	<u>\$1,269,016</u>	<u>\$ 224,715</u>	<u>\$ 480,291</u>
DISBURSEMENTS:			
Operating:			
Public safety	\$ 667,699	\$ 135,448	\$ -
Public works	268,211	96,810	-
Health and social services	-	-	-
Culture and recreation	296,175	-	-
Community and economic development	-	-	62,505
General government	156,697	118,001	-
Debt service	-	-	283,257
Capital projects	-	-	-
Total disbursements	<u>\$1,388,782</u>	<u>\$ 350,259</u>	<u>\$ 345,762</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (119,766)</u>	<u>\$ (125,544)</u>	<u>\$ 134,529</u>
Other financing sources (uses):			
Note proceeds	\$ -	\$ -	\$ -
Note discount	-	-	-
Operating transfers in	-	-	-
Operating transfers out	-	(36,316)	(178,821)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ (36,316)</u>	<u>\$ (178,821)</u>
Net change in cash balances	\$ (119,766)	\$ (161,860)	\$ (44,292)
Cash balances beginning of year	<u>419,127</u>	<u>354,054</u>	<u>314,392</u>
Cash balances end of year	<u>\$ 299,361</u>	<u>\$ 192,194</u>	<u>\$ 270,100</u>
Cash Basis Fund Balances:			
Unreserved:			
General fund	\$ 299,361	\$ -	\$ -
Special revenue funds	-	192,194	270,100
Debt service fund	-	-	-
Capital projects funds	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	<u>\$ 299,361</u>	<u>\$ 192,194</u>	<u>\$ 270,100</u>

See Notes to Financial Statements.

Debt Service	Capital Projects		Other Nonmajor Governmental Funds	Total
	Community Center	Library Building Project		
\$ 246,037	\$ -	\$ -	\$ 231,377	\$ 959,947
-	-	-	-	456,344
-	-	-	-	224,715
-	-	-	-	5,955
-	-	-	-	87,005
-	-	69,355	250,404	462,746
-	-	-	-	488,657
85,978	-	-	-	85,978
-	-	286,000	41,410	413,236
<u>\$ 332,015</u>	<u>\$ -</u>	<u>\$ 355,355</u>	<u>\$ 523,191</u>	<u>\$ 3,184,583</u>
\$ -	\$ -	\$ -	\$ 253,749	\$ 1,056,896
-	-	-	368,131	733,152
-	-	-	7,022	7,022
-	-	-	79,317	375,492
-	-	-	48,267	110,772
-	-	-	46,428	321,126
1,801,208	-	-	47,408	2,131,873
13,598	-	1,281,818	299	1,295,715
<u>\$ 1,814,806</u>	<u>\$ -</u>	<u>\$1,281,818</u>	<u>\$ 850,621</u>	<u>\$ 6,032,048</u>
<u>\$(1,482,791)</u>	<u>\$ -</u>	<u>\$ (926,463)</u>	<u>\$ (327,430)</u>	<u>\$(2,847,465)</u>
\$ 1,335,000	\$ -	\$ 950,000	\$ -	\$ 2,285,000
(25,112)	-	-	-	(25,112)
159,951	-	-	199,054	359,005
-	-	-	(148,951)	(364,088)
<u>\$ 1,469,839</u>	<u>\$ -</u>	<u>\$ 950,000</u>	<u>\$ 50,103</u>	<u>\$ 2,254,805</u>
\$ (12,952)	\$ -	\$ 23,537	\$ (277,327)	\$ (592,660)
(37,311)	159,388	55,664	506,547	1,771,861
<u>\$ (50,263)</u>	<u>\$ 159,388</u>	<u>\$ 79,201</u>	<u>\$ 229,220</u>	<u>\$ 1,179,201</u>
\$ -	\$ -	\$ -	\$ -	\$ 299,361
-	-	-	136,549	598,843
(50,263)	-	-	-	(50,263)
-	159,388	79,201	36,000	274,589
-	-	-	56,671	56,671
<u>\$ (50,263)</u>	<u>\$ 159,388</u>	<u>\$ 79,201</u>	<u>\$ 229,220</u>	<u>\$ 1,179,201</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, 2009

	Enterprise Funds		
	Water	Water Debt Service	Sewer Rental
Operating receipts:			
Charges for service	\$ 498,580	\$ -	\$ 286,127
Miscellaneous	2,252	-	7,711
Total operating receipts	\$ 500,832	\$ -	\$ 293,838
Operating disbursements:			
Business type activities	322,988	-	303,596
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 177,844	\$ -	\$ (9,758)
Non-operating receipts (disbursements):			
Intergovernmental	\$ 145	\$ -	\$ 4,441
Debt service	-	(140,768)	-
Capital projects	-	-	-
Net non-operating receipts (disbursements)	\$ 145	\$(140,768)	\$ 4,441
Excess (deficiency) of receipts over (under) disbursements	\$ 177,989	\$(140,768)	\$ (5,317)
Other financing sources (uses):			
Operating transfers in	\$ -	\$ 160,917	\$ -
Operating transfers out	(138,299)	-	(34,070)
Total other financing sources (uses)	\$(138,299)	\$ 160,917	\$ (34,070)
Net change in cash balances	\$ 39,690	\$ 20,149	\$ (39,387)
Cash balances beginning of year	324,208	135,522	127,535
Cash balances end of year	\$ 363,898	\$ 155,671	\$ 88,148
Cash Basis Fund Balances:			
Reserved for debt service	\$ -	\$ 155,671	\$ -
Unreserved	363,898	-	88,148
Total cash basis fund balances	\$ 363,898	\$ 155,671	\$ 88,148

See Notes to Financial Statements.

<u>Other Nonmajor Enterprise Fund</u>	<u>Total</u>
\$ 85,996	\$ 870,703
156	10,119
<u>\$ 86,152</u>	<u>\$ 880,822</u>
<u>90,339</u>	<u>716,923</u>
<u>\$ (4,187)</u>	<u>\$ 163,899</u>
\$ -	\$ 4,586
-	(140,768)
<u>(12,665)</u>	<u>(12,665)</u>
<u>\$ (12,665)</u>	<u>\$ (148,847)</u>
<u>\$ (16,852)</u>	<u>\$ 15,052</u>
\$ 16,535	\$ 177,452
-	(172,369)
<u>\$ 16,535</u>	<u>\$ 5,083</u>
\$ (317)	\$ 20,135
<u>172,676</u>	<u>759,941</u>
<u>\$ 172,359</u>	<u>\$ 780,076</u>
\$ 85,000	\$ 240,671
<u>87,359</u>	<u>539,405</u>
<u>\$ 172,359</u>	<u>\$ 780,076</u>

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(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 Wright Medical Center. 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 Wright Medical Center is not presented in these financial statements. It is legally separate from the City, but is financially accountable to the City. The Medical Center is governed by a five-member board appointed by the City Council and the Medical Center's operating budget is subject to the approval of the City Council.

Jointly Governed Organizations - The City participates in jointly governed organizations that provide services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Wright County Assessor's Conference Board and the Mid-Iowa Development Association Council of Governments.

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 service.

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(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 and proprietary funds are aggregated and reported as nonmajor governmental and proprietary 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, 2009

(1) Summary of Significant Accounting Policies - continued

Capital Projects:

The Community Center Fund accounts for improvements.

The Library Building Project Fund is used to account for library construction.

The City reports the following major proprietary funds:

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

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

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, 2009, disbursements exceeded the amounts budgeted in the public works, health and social services, culture and recreation, general government, debt service and capital projects functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 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, 2009

(2) **Cash and Pooled Investments** - continued

At June 30, 2009, 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) **Notes Payable**

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

Year Ending June 30,	General Obligation Notes		Revenue Notes		Special Assessment Notes		Other Loans	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 420,945	\$103,370	\$ 185,000	\$106,556	\$ 55,000	\$ 5,505	\$ 25,000	\$ -
2011	348,111	87,144	190,000	98,125	15,000	3,405	25,000	-
2012	363,871	72,131	200,000	89,401	15,000	2,775	25,000	-
2013	320,000	56,615	210,000	80,148	15,000	2,115	25,000	-
2014	335,000	44,145	215,000	70,391	15,000	1,433	25,000	-
2015-2019	735,000	63,680	980,000	195,428	15,000	364	50,000	-
2020-2023	-	-	380,000	35,093	-	-	-	-
Total	<u>\$2,522,927</u>	<u>\$427,085</u>	<u>\$2,360,000</u>	<u>\$675,142</u>	<u>\$130,000</u>	<u>\$ 15,597</u>	<u>\$175,000</u>	<u>\$ -</u>

Year Ending June 30,	Total	
	Principal	Interest
2010	\$ 685,945	\$ 215,431
2011	578,111	188,674
2012	603,871	164,307
2013	570,000	138,878
2014	590,000	115,969
2015-2019	1,780,000	259,472
2020-2023	380,000	35,093
Total	<u>\$5,187,927</u>	<u>\$1,117,824</u>

The resolutions providing for the issuance of the general obligation 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.
- (b) 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.

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(3) Notes Payable - continued

- (c) 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.
- (d) 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.
- (e) At the option of the City, notes due on the Capital Loan Note issue of August 28, 2008, are subject to redemption and prepayment in any order of maturity beginning June 1, 2014, 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 Notes

The City issued \$950,000 of urban renewal revenue annual appropriation capital loan notes in September 2005 for the purpose of defraying a portion of the costs of the aquatic center project within the urban renewal district. The notes are payable solely from the net revenues of urban renewal project credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the bonds is \$715,426, payable through June 2020. For the current year, principal and interest paid were \$40,000 and \$26,478, respectively.

The City issued \$950,000 of urban renewal revenue annual appropriation capital loan notes in August 2008 for the purpose of defraying a portion of the costs of the library project within the urban renewal district. The notes are payable solely from the net revenues of urban renewal project credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the bonds is \$1,188,400, payable through June 2023. For the current year, principal and interest paid were \$55,000 and \$29,151, respectively.

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

- (a) The notes will only be redeemed from the net revenues of the urban renewal projects.
- (b) Sufficient monthly transfers shall be made to separate sinking accounts for the purpose of making the note principal and interest payments when due.

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(3) **Notes Payable** - continued

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,100,000 in water revenue notes issued in July 1976. Proceeds from the notes provided financing for the construction of water main improvement and extensions. The notes are payable solely from water customer net receipts and are payable through 2017. Annual principal and interest payments on the notes are expected to require less than 13 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$525,500. For the current year, principal and interest paid and total customer net receipts were \$63,250 and \$177,844, respectively.

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

- a) The notes will only be redeemed from the future earnings of the enterprise activity and bond/note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to separate water revenue 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 revenue 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.

(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 4.10% of their annual covered salary and the City is required to contribute 6.35% 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, 2009, 2008 and 2007 were \$64,592, \$61,063 and \$53,968, respectively, equal to the required contributions for each year.

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(5) Other Postemployment Benefits (OPEB)

The City implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2009.

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There were 21 active and 2 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$345 for single coverage and \$1,060 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2009, the City contributed \$174,202 and plan members eligible for benefits contributed \$23,927 to the plan.

(6) 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, 2009, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 85,225
Comp time	6,445
Total	<u>\$ 91,670</u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

(7) Leases

The City has entered into a lease purchase agreement with the Wright Medical 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 \$137,094 and \$102,658, respectively, were paid directly by the Foundation. The City's obligations under this lease purchase agreement are not general obligations of the City.

CITY OF CLARION, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2009

(7) **Leases** - continued

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

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$1,504,359</u>	<u>\$ 433,636</u>	<u>\$1,937,995</u>

(8) **Deficit Balances**

The Debt Service Fund had a deficit balance of \$50,263 at June 30, 2009. The deficit balance was a result of early debt retirement. The deficit will be eliminated upon future receipts.

(9) **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, 2009, the City of Clarion paid the Authority \$74,200 for its share of the costs. Completed financial statements for the Authority can be obtained from the Wright County Landfill.

CITY OF CLARION, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2009

(10) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:	Special Revenue:	
Employee Benefit	Local Option Sales Tax	\$ 20,000
Tax Increment Financing Debt	Tax Increment Financing	178,821
		<u>\$ 198,821</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	\$ 11,000
	05/06 Street Project	148,951
		<u>\$ 159,951</u>
Capital Projects:	Special Revenue:	
CDBG	Local Option Sales Tax	\$ 233
Enterprise:	Special Revenue:	
Storm Sewer Permits	Local Option Sales Tax	\$ 5,083
	Enterprise:	
	Sewer Rental	11,452
		<u>\$ 16,535</u>
Water Debt Service	Enterprise:	
	Water	\$ 138,299
	Sewer	22,618
		<u>\$ 160,917</u>
Total		<u>\$ 536,457</u>

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

(11) **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.

(12) **Commitments**

At June 30, 2009, the following construction commitments had been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred to Date</u>
Library	\$1,439,205	\$1,073,579
2009 Storm Sewer	114,696	-
Airport Apron	159,812	-
	<u>\$1,713,713</u>	<u>\$1,073,579</u>

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(13) Industrial Development Revenue Bonds

The City has issued a total of \$4,136,368 of industrial revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$4,106,401 is outstanding at June 30, 2009. The bonds and related interest are payable solely from the revenues generated by the manufacturing company, and the bond principal and interest do not constitute liabilities of the City.

(14) Subsequent Events

On July 6, 2009 the City approved the issuance of several notes, as follows:

General obligation capital loan notes	\$1,295,000
General obligation capital loan notes	925,000
General obligation refunding capital notes	1,300,000
General obligation capital loan notes	1,075,000

Also, on July 6, 2009 the City awarded the police/ambulance building contract to Becker Construction in the amount of \$732,208.

On September 1, 2009 the City awarded the contract to Crown Industries in the amount of \$88,840 for the rehabilitation of Hanger F at the Clarion Municipal Airport.

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, 2009

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Less Funds Not Required To Be Budgeted</u>
RECEIPTS:			
Property tax	\$ 959,947	\$ -	\$ -
Tax increment financing	456,344	-	-
Other city tax	224,715	-	-
Licenses and permits	5,955	-	-
Use of money and property	87,005	-	-
Intergovernmental	462,746	4,586	-
Charges for service	488,657	870,703	-
Special assessments	85,978	-	-
Miscellaneous	413,236	10,119	-
Total receipts	<u>\$ 3,184,583</u>	<u>\$ 885,408</u>	<u>\$ -</u>
DISBURSEMENTS:			
Public safety	\$ 1,056,896	\$ -	\$ -
Public works	733,152	-	-
Health and social services	7,022	-	-
Culture and recreation	375,492	-	-
Community and economic development	110,772	-	-
General government	321,126	-	-
Debt service	2,131,873	140,768	-
Capital projects	1,295,715	12,665	-
Business type activities	-	716,923	-
Total disbursements	<u>\$ 6,032,048</u>	<u>\$ 870,356</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$(2,847,465)	\$ 15,052	\$ -
Other financing sources, net	<u>2,254,805</u>	<u>5,083</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ (592,660)	\$ 20,135	\$ -
Balances beginning of year	<u>1,771,861</u>	<u>759,941</u>	<u>-</u>
Balances end of year	<u>\$ 1,179,201</u>	<u>\$ 780,076</u>	<u>\$ -</u>

See Accompanying Independent Auditor's Report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 959,947	\$ 931,532	\$ 931,532	\$ 28,415
456,344	470,826	470,826	(14,482)
224,715	30,585	30,585	194,130
5,955	21,700	21,700	(15,745)
87,005	93,380	93,380	(6,375)
467,332	542,870	542,870	(75,538)
1,359,360	61,240,722	61,440,722	(60,081,362)
85,978	78,000	78,000	7,978
423,355	147,869	147,869	275,486
<u>\$ 4,069,991</u>	<u>\$63,557,484</u>	<u>\$63,757,484</u>	<u>\$(59,687,493)</u>
\$ 1,056,896	\$ 804,808	\$ 1,085,480	\$ 28,584
733,152	401,987	531,987	(201,165)
7,022	6,000	6,000	(1,022)
375,492	330,177	330,177	(45,315)
110,772	334,122	659,122	548,350
321,126	208,423	304,423	(16,703)
2,272,641	378,615	378,615	(1,894,026)
1,308,380	20,000	20,000	(1,288,380)
716,923	60,957,542	60,957,542	60,240,619
<u>\$ 6,902,404</u>	<u>\$63,441,674</u>	<u>\$64,273,346</u>	<u>\$ 57,370,942</u>
\$(2,832,413)	\$ 115,810	\$ (515,862)	\$ (2,316,551)
<u>2,259,888</u>	<u>-</u>	<u>631,672</u>	<u>1,628,216</u>
\$ (572,525)	\$ 115,810	\$ 115,810	\$ (688,335)
<u>2,531,802</u>	<u>3,405,091</u>	<u>3,405,091</u>	<u>(873,289)</u>
<u>\$ 1,959,277</u>	<u>\$ 3,520,901</u>	<u>\$ 3,520,901</u>	<u>\$(1,561,624)</u>

CITY OF CLARION, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2009

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 nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$831,672. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the public works, health and social services, culture and recreation, general government, debt service and capital projects 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, 2009

	<u>Special Revenue</u>			<u>Tax Increment Financing Debt</u>
	<u>Road Use Tax</u>	<u>Employee Benefit</u>	<u>Emergency Levy</u>	
RECEIPTS:				
Property tax	\$ -	\$ 217,018	\$ 14,359	\$ -
Intergovernmental	246,254	-	-	-
Miscellaneous	7,000	21,291	-	-
Total receipts	<u>\$ 253,254</u>	<u>\$ 238,309</u>	<u>\$ 14,359</u>	<u>\$ -</u>
DISBURSEMENTS:				
Operating:				
Public safety	\$ -	\$ 166,699	\$ -	\$ 87,050
Public works	333,692	34,439	-	-
Health and social services	7,022	-	-	-
Culture and recreation	-	52,459	-	18,807
Community and economic development	-	-	-	48,267
General government	-	18,009	-	28,419
Debt service	8,020	-	14,388	-
Capital projects	-	-	-	-
Total disbursements	<u>\$ 348,734</u>	<u>\$ 271,606</u>	<u>\$ 14,388</u>	<u>\$ 182,543</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (95,480)</u>	<u>\$ (33,297)</u>	<u>\$ (29)</u>	<u>\$ (182,543)</u>
Other financing sources (uses):				
Operating transfers in	\$ -	\$ 20,000	\$ -	\$ 178,821
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ 20,000</u>	<u>\$ -</u>	<u>\$ 178,821</u>
Net change in cash balances	\$ (95,480)	\$ (13,297)	\$ (29)	\$ (3,722)
Cash balances beginning of year	<u>142,654</u>	<u>37,445</u>	<u>6,429</u>	<u>3,722</u>
Cash balances end of year	<u>\$ 47,174</u>	<u>\$ 24,148</u>	<u>\$ 6,400</u>	<u>\$ -</u>
Cash Basis Fund Balances:				
Unreserved:				
Special revenue funds	\$ 47,174	\$ 24,148	\$ 6,400	\$ -
Capital projects funds	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	<u>\$ 47,174</u>	<u>\$ 24,148</u>	<u>\$ 6,400</u>	<u>\$ -</u>

See Accompanying Independent Auditor's Report.

<u>Library Improvement</u>	<u>Capital Projects</u>			<u>Permanent</u>	<u>Total</u>
	<u>CDBG</u>	<u>05/06 Street Project</u>	<u>Swimming Pool Project</u>	<u>Cemetery Perpetual Care</u>	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 231,377
3,202	948	-	-	-	250,404
9,759	-	-	3,000	360	41,410
<u>\$ 12,961</u>	<u>\$ 948</u>	<u>\$ -</u>	<u>\$ 3,000</u>	<u>\$ 360</u>	<u>\$ 523,191</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 253,749
-	-	-	-	-	368,131
-	-	-	-	-	7,022
8,051	-	-	-	-	79,317
-	-	-	-	-	48,267
-	-	-	-	-	46,428
-	-	-	25,000	-	47,408
-	299	-	-	-	299
<u>\$ 8,051</u>	<u>\$ 299</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ 850,621</u>
\$ 4,910	\$ 649	\$ -	\$ (22,000)	\$ 360	\$ (327,430)
\$ -	\$ 233	\$ -	\$ -	\$ -	\$ 199,054
-	-	(148,951)	-	-	(148,951)
\$ -	\$ 233	\$ (148,951)	\$ -	\$ -	\$ 50,103
\$ 4,910	\$ 882	\$ (148,951)	\$ (22,000)	\$ 360	\$ (277,327)
53,917	(882)	148,951	58,000	56,311	506,547
<u>\$ 58,827</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,000</u>	<u>\$ 56,671</u>	<u>\$ 229,220</u>
\$ 58,827	\$ -	\$ -	\$ -	\$ -	\$ 136,549
-	-	-	36,000	-	36,000
-	-	-	-	56,671	56,671
<u>\$ 58,827</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,000</u>	<u>\$ 56,671</u>	<u>\$ 229,220</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, 2009

	Enterprise			Total
	Water Bond Reserve	Storm Sewer Permits	Landfill	
Operating receipts:				
Charges for service	\$ -	\$ -	\$ 85,996	\$ 85,996
Miscellaneous	-	-	156	156
Total operating receipts	\$ -	\$ -	\$ 86,152	\$ 86,152
Operating disbursements:				
Business type activities	-	-	90,339	90,339
Deficiency of operating receipts under operating disbursements	\$ -	\$ -	\$ (4,187)	\$ (4,187)
Non-operating disbursements:				
Capital projects	-	(12,665)	-	(12,665)
Deficiency of receipts under disbursements	\$ -	\$ (12,665)	\$ (4,187)	\$ (16,852)
Operating transfers in	-	16,535	-	16,535
Net change in cash balances	\$ -	\$ 3,870	\$ (4,187)	\$ (317)
Cash balances beginning of year	85,000	(3,870)	91,546	172,676
Cash balances end of year	<u>\$ 85,000</u>	<u>\$ -</u>	<u>\$ 87,359</u>	<u>\$ 172,359</u>
Cash Basis Fund Balances:				
Reserved for debt service	\$ 85,000	\$ -	\$ -	\$ 85,000
Unreserved	-	-	87,359	87,359
Total cash basis fund balances	<u>\$ 85,000</u>	<u>\$ -</u>	<u>\$ 87,359</u>	<u>\$ 172,359</u>

See Accompanying Independent Auditor's Report.

CITY OF CLARION, IOWA
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2009

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Notes:			
Capital Loan Notes	12-15-92	5.90%	\$ 295,000
Capital Loan Anticipation Notes	08-01-98	4.25 - 4.75	405,000
Capital Loan Notes	02-01-00	4.80 - 5.50	420,000
Capital Loan Notes	05-01-00	5.00 - 5.50	725,000
Capital Loan Notes	05-01-01	4.10 - 5.00	540,000
Capital Loan Notes	04-01-02	3.00 - 5.00	470,000
Capital Loan Notes	10-01-04	2.50 - 4.20	990,000
Capital Loan Anticipation Notes	05-24-07	3.90	1,110,000
Capital Loan Notes	08-28-08	2.85 - 4.30	1,335,000
Special Assessment Notes:			
Roadway/Utility Improvement	11-01-98	4.50 - 5.00%	\$ 120,000
Street Improvement	02-01-00	5.10 - 6.00	71,000
Street Improvement	05-01-00	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:			
Aquatic Center	09-01-05	4.45%	\$ 950,000
Library	08-25-08	4.00	950,000
Revenue Notes:			
Water	07-01-76	5.00%	\$1,100,000
Water Capital Loan Notes	04-01-99	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.

<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>
\$ 106,848	\$ -	\$ 28,921	\$ 77,927	\$ 5,453	\$ -
50,000	-	50,000	-	2,375	-
105,000	-	105,000	-	1,543	-
190,000	-	190,000	-	2,804	-
245,000	-	55,000	190,000	11,900	-
215,000	-	50,000	165,000	10,445	-
925,000	-	25,000	900,000	36,915	-
1,110,000	-	1,110,000	-	10,823	-
-	1,335,000	145,000	1,190,000	36,815	-
<u>\$2,946,848</u>	<u>\$1,335,000</u>	<u>\$1,758,921</u>	<u>\$2,522,927</u>	<u>\$ 119,073</u>	<u>\$ -</u>
\$ 15,000	\$ -	\$ 15,000	\$ -	\$ 750	\$ -
20,000	-	10,000	10,000	1,190	-
60,000	-	30,000	30,000	2,685	-
100,000	-	10,000	90,000	4,375	-
<u>\$ 195,000</u>	<u>\$ -</u>	<u>\$ 65,000</u>	<u>\$ 130,000</u>	<u>\$ 9,000</u>	<u>\$ -</u>
\$ 595,000	\$ -	\$ 40,000	\$ 555,000	\$ 26,478	\$ -
-	950,000	55,000	895,000	29,151	-
<u>\$ 595,000</u>	<u>\$ 950,000</u>	<u>\$ 95,000</u>	<u>\$1,450,000</u>	<u>\$ 55,629</u>	<u>\$ -</u>
\$ 465,000	\$ -	\$ 40,000	\$ 425,000	\$ 23,250	\$ -
535,000	-	50,000	485,000	27,157	-
<u>\$1,000,000</u>	<u>\$ -</u>	<u>\$ 90,000</u>	<u>\$ 910,000</u>	<u>\$ 50,407</u>	<u>\$ -</u>
\$ 200,000	\$ -	\$ 25,000	\$ 175,000	\$ -	\$ -
<u>\$4,936,848</u>	<u>\$2,285,000</u>	<u>\$2,033,921</u>	<u>\$5,187,927</u>	<u>\$ 234,109</u>	<u>\$ -</u>
\$1,641,453	\$ -	\$ 137,094	\$1,504,359	\$ 102,658	\$ -
<u>\$6,578,301</u>	<u>\$2,285,000</u>	<u>\$2,171,015</u>	<u>\$6,692,286</u>	<u>\$ 336,767</u>	<u>\$ -</u>

CITY OF CLARION, IOWA
NOTE MATURITIES
JUNE 30, 2009

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>
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	-	-	-	-	-	-
Total		<u>\$ 77,927</u>		<u>\$ 55,000</u>		<u>\$ 100,000</u>

GENERAL OBLIGATION NOTES

Capital Loan Notes

Year Ending June 30,	<u>Issued August 28, 2008</u>		<u>Total</u>
	Interest		
	<u>Rates</u>	<u>Amount</u>	
2010	3.10%	\$ 255,000	\$ 420,945
2011	3.30	100,000	348,111
2012	3.50	105,000	363,871
2013	3.70	110,000	320,000
2014	3.90	115,000	335,000
2015	4.00	120,000	350,000
2016	4.10	125,000	125,000
2017	4.20	125,000	125,000
2018	4.30	135,000	135,000
Total		<u>\$1,190,000</u>	<u>\$ 2,522,927</u>

(continued)

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
4.80%	\$ 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>\$190,000</u>		<u>\$165,000</u>		<u>\$900,000</u>

R E V E N U E N O T E S

Year Ending June 30	Water		Water Capital Loan Note		Total
	Issued July 1, 1976	Issued April 1, 1999	Issued July 1, 1976	Issued April 1, 1999	
	Interest	Interest	Interest	Interest	
	Rates	Amount	Rates	Amount	
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>\$425,000</u>		<u>\$485,000</u>	<u>\$ 910,000</u>

CITY OF CLARION, IOWA
NOTE MATURITIES
JUNE 30, 2009

S P E C I A L A S S E S S M E N T

Street Improvements

Year Ending June 30	Issued February 1, 2000		Issued May 1, 2000	
	Interest		Interest	
	Rates	Amount	Rates	Amount
2010	6.00%	\$ 10,000	6.00%	\$ 30,000
2011		-		-
2012		-		-
2013		-		-
2014		-		-
2015		-		-
Total		\$ 10,000		\$ 30,000

Urban Renewal Revenue Annual

Appropriation Capital Loan Notes

Year Ending June 30	Issued September 1, 2005		Issued August 25, 2008		Total
	Interest		Interest		
	Rates	Amount	Rates	Amount	
2010	4.45%	\$ 40,000	4.00%	\$ 50,000	\$ 90,000
2011	4.45	40,000	4.00	50,000	90,000
2012	4.45	45,000	4.00	50,000	95,000
2013	4.45	45,000	4.00	55,000	100,000
2014	4.45	45,000	4.00	55,000	100,000
2015	4.45	50,000	4.00	60,000	110,000
2016	4.45	50,000	4.00	60,000	110,000
2017	4.45	55,000	4.00	65,000	120,000
2018	4.45	60,000	4.00	65,000	125,000
2019	4.45	60,000	4.00	70,000	130,000
2020	4.45	65,000	4.00	75,000	140,000
2021		-	4.00	75,000	75,000
2022		-	4.00	80,000	80,000
2023		-	4.00	85,000	85,000
Total		\$555,000		\$895,000	\$1,450,000

See Accompanying Independent Auditor's Report.

NOTES

Issued October 1, 2004

Interest

<u>Rates</u>	<u>Amount</u>	<u>Total</u>
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>\$ 90,000</u>	<u>\$ 130,000</u>

Rural Economic Development

Loan Agreement

Issued November 21, 2005

Interest

<u>Rates</u>	<u>Amount</u>
- %	\$ 25,000
-	25,000
-	25,000
-	25,000
-	25,000
-	25,000
-	25,000
	-
	-
	-
	-
	<u>\$175,000</u>

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Receipts:			
Property tax	\$ 959,947	\$ 910,621	\$ 899,589
Tax increment financing	456,344	388,179	362,842
Other city tax	224,715	255,882	273,021
Licenses and permits	5,955	7,263	3,618
Use of money and property	87,005	89,445	79,990
Intergovernmental	462,746	311,185	539,300
Charges for service	488,657	488,216	357,334
Special assessments	85,978	182,667	113,334
Miscellaneous	413,236	236,944	285,292
Total	<u>\$3,184,583</u>	<u>\$2,870,402</u>	<u>\$2,914,320</u>
Disbursements:			
Operating:			
Public safety	\$1,056,896	\$ 732,866	\$ 678,174
Public works	733,152	531,856	418,022
Health and social services	7,022	6,750	5,600
Culture and recreation	375,492	336,437	330,504
Community and economic development	110,772	112,474	523,301
General government	321,126	285,943	203,553
Debt Service	2,131,873	651,190	613,441
Capital projects	1,295,715	748,517	365,493
Total	<u>\$6,032,048</u>	<u>\$3,406,033</u>	<u>\$3,138,088</u>

See Accompanying Independent Auditor's Report.

<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 922,979	\$ 906,335	\$ 803,611
371,856	376,982	312,304
191,882	265,184	192,088
6,285	4,617	5,507
76,866	66,533	56,817
525,710	479,669	288,939
530,990	382,081	198,059
142,873	257,755	250,396
<u>353,879</u>	<u>177,494</u>	<u>209,806</u>
<u>\$3,123,320</u>	<u>\$2,916,650</u>	<u>\$2,317,527</u>
\$ 671,442	\$ 567,306	\$ 536,686
686,333	610,639	1,259,778
5,600	-	-
301,154	299,356	303,255
185,926	70,848	172,148
159,698	195,578	197,765
944,070	597,032	581,359
<u>1,662,436</u>	<u>538,813</u>	<u>-</u>
<u>\$4,616,659</u>	<u>\$2,879,572</u>	<u>\$3,050,991</u>



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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, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated September 30, 2009. 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 Wright Medical Center. 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, including 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 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 (A), (B), (C) and (D) 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 the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 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.



September 30, 2009

CITY OF CLARION, IOWA
Schedule of Findings
Year Ended June 30, 2009

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

(A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. 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.

(B) 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.

(C) Delinquent Utilities - The City has not been fully enforcing the ordinance pertaining to delinquent utilities. I noted that shut-offs were not being implemented when accounts become fully delinquent, resulting in delinquent utilities in excess of \$24,000.

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

Response - We will do this.

Conclusion - Response accepted.

(D) Investment Control - A detailed record of investment transactions is maintained, however, the Treasurer's Report fund balances do not reconcile to the Clerk's fund balances.

Recommendation - The investments should be reconciled to the Clerk's fund balances. This procedure will provide more accurate information on the balance available for each fund.

Response - We will include accurate information in the Clerk's report.

Conclusion - Response accepted.

CITY OF CLARION, IOWA
Schedule of Findings
Year Ended June 30, 2009

Findings Related to the Financial Statements: - continued

(E) Credit Cards - The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for proper accounting of credit card charges.

Recommendation - The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges.

Response - A policy will be established.

Conclusion - Response accepted.

(F) Countersignature of Checks - The City requires checks to be signed by two authorized individuals. I noted several checks with only one authorized signature.

Recommendation - Checks should be prepared and signed by one individual and then the supporting documentation should be made available along with the check to a second independent individual for review and countersignature.

Response - We will follow procedures for two signatures on all checks.

Conclusion - Response accepted.

(G) Mileage Reimbursement - The City reimbursed mileage at a rate less than the Internal Revenue Service allowable rate. The City is not in compliance with their own policy.

Recommendation - The City should change its mileage reimbursement rate when the Internal Revenue Service mileage reimbursement rate is changed.

Response - We will do this in the future.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

(1) Certified Budget - Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted in the public works, health and social services, culture and recreation, general government, debt service and capital projects 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.

CITY OF CLARION, IOWA
Schedule of Findings
Year Ended June 30, 2009

Other Findings Related to Required Statutory Reporting: - continued

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

Conclusion - Response accepted.

- (2) 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.
- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions - No business transactions between the City and City officials or employees were noted.
- (5) 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.
- (6) Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.
- (7) 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.
- (8) Other Information Required by Bond and Note Resolutions - The following insurance policies were in force at June 30, 2009:

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>
Employers Mutual Casualty	Commercial property	\$6,582,594	April 1, 2010
Employers Mutual Casualty	General liability:		
	General aggregate limit	\$2,000,000	April 1, 2010
	Products/complete operation	2,000,000	April 1, 2010
	Personal and/or advertising		
	Injury limit	1,000,000	April 1, 2010
	Each occurrence limit	1,000,000	April 1, 2010
	Fire damage limit	100,000	April 1, 2010
	Medical expense limit	5,000	April 1, 2010
Employers Mutual Casualty	Inland marine:		
	Contractor's equipment	\$ 526,800	April 1, 2010
	Valuable papers and records	Various	April 1, 2010

**CITY OF CLARION, IOWA
Schedule of Findings
Year Ended June 30, 2009**

Other Findings Related to Required Statutory Reporting: - continued

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>	
Employers Mutual Casualty	Commercial Automobile: Liability	\$1,000,000	April 1, 2010	
	Auto medical payments	5,000	April 1, 2010	
	Uninsured motorists	50,000	April 1, 2010	
	Underinsured motorists	50,000	April 1, 2010	
	Comprehensive	Actual cash value or cost of repairs whichever is less minus deductible as shown on schedule for each covered auto		April 1, 2010
	Collision	Actual cash value or cost of repairs whichever is less minus deductible as shown on schedule for each covered auto		April 1, 2010
Employers Mutual Casualty	Commercial Crime - Inside premises	\$ 25,000	April 1, 2010	
	Commercial Crime - Outside premises	25,000	April 1, 2010	
	Public Employee Dishonesty	175,000	April 1, 2010	
	Forgery/Alteration	10,000	April 1, 2010	
Employers Mutual Casualty	Commercial Umbrella: Occurrence limit	\$5,000,000	April 1, 2010	
	Aggregate limit	5,000,000	April 1, 2010	
Employers Mutual Casualty	Linebacker: Occurrence limit	\$1,000,000	April 1, 2010	
	Aggregate limit	1,000,000	April 1, 2010	
US Specialty Insurance Co.	General Liability: Airport Occurrence limit	\$1,000,000	May 8, 2010	
	Aggregate limit	2,000,000		
Iowa Municipalities Workers' Compensation Association	Workers' Compensation Self Insurance Retention: Each occurrence	\$1,000,000	July 1, 2010	

(9) Financial Condition - The Debt Service Fund had a deficit balance at June 30, 2009 of \$50,263.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return this fund to a sound financial position.

Response - The deficit will be eliminated.

Conclusion - Response accepted.

CITY OF CLARION, IOWA
Schedule of Findings
Year Ended June 30, 2009

Other Findings Related to Required Statutory Reporting: - continue

- (10) Payment of General Obligation Bonds - Certain general obligation bonds were paid from various funds. Chapter 384.4 of the Code of Iowa states, in part, that "Moneys pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the Debt Service Fund."
- Recommendation - The City should transfer from the various funds to the Debt Service Fund for future funding contributions. Payments of the bonds should then be disbursed from the Debt Service Fund.
- Response - We will transfer funds in the future as recommended.
- Conclusion - Response accepted.
- (11) Urban Renewal Revenue Notes - The City has not established the Aquatic or Library Urban Renewal Bond Sinking Account as required by the bond resolutions.
- Recommendation - The City should establish this account and make the necessary transfers as required by the resolutions.
- Response - We will establish this account and make the appropriate transfers.
- Conclusion - Response accepted.
- (12) Local Option Sales Tax - We noted that the City was not allocating Local Option Sales Tax Collections in accordance with the original resolution.
- Recommendation - We recommend that the City correct the allocation procedures to comply with the original resolution.
- Response - We will do this.
- Conclusion - Response accepted.
- (13) Tax Increment Financing (TIF) Disbursements - The City amended its urban renewal plan in accordance with Chapter 403.5 of the Code of Iowa, however, disbursements were made from the fund prior to the amendment.
- Recommendation - The urban renewal plan should have been amended in accordance with Chapter 403.5 of the Code of Iowa before the disbursements were made.
- Response - We will amend the plan prior to making disbursements in the future, if applicable.
- Conclusion - Response accepted.

CITY OF CLARION, IOWA
Schedule of Findings
Year Ended June 30, 2009

Other Findings Related to Required Statutory Reporting: - continued

- (14) Debt Service Payments - The City made payments from the Debt Service Fund for expenditures other than interest and principal payments. Chapter 384.4 of the Code of Iowa establishes allowable expenditures from the Debt Service Fund.

Recommendation - The City should only make interest and principal payments from the Debt Service Fund as required by the Code of Iowa.

Response - We will do this.

Conclusion - Response accepted

- (15) Water Revenue Bond Transfers - The City transferred money to the Water Debt Service Fund from the Sewer Rental Fund on two occasions. Per the bond resolution, the monies should be transferred from the Water Fund.

Recommendation - The City should comply with the bond resolution and transfer money monthly from the Water Fund to the Water Debt Service Fund.

Response - We will be more careful in the future.

Conclusion - Response accepted.

- (16) Health Insurance Plan - The City has a health insurance plan that is partially self-funded. Chapter 509A.15 of the Code of Iowa requires that for this type of plan the City must file a Certificate of Compliance with the Insurance Commissioner of Iowa. I noted that this was not filed.

Recommendation - The Certificate of Compliance should be filed as required by the Code.

Response - We will investigate this.

Conclusion - Response accepted.