

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

JUNE 30, 2012

- Prepared By -

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

CITY OF CLARION, IOWA

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CITY OF CLARION, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
<b>(Before January 2012)</b>		
Mike Nail	Mayor	January 2014
Kirk Rier	Mayor Pro tem	January 2014
Steve Evans	Council Member	January 2012
Lindsey German	Council Member	January 2012
Cory Abels	Council Member	January 2014
Duane Asbe	Council Member	January 2014
Vicky Boyington	City Administrator/Clerk	January 2012
Vicki Toomsen	Treasurer	January 2012
Robert Brinton	Attorney	January 2012
<b>(After January 2012)</b>		
Mike Nail	Mayor	January 2014
Kirk Rier	Mayor Pro tem	January 2014
Cory Abels	Council Member	January 2014
Duane Asbe	Council Member	January 2014
Steve Evans	Council Member	January 2016
Lindsey German	Council Member	January 2016
Rochelle Pohlman	City Administrator/Clerk	January 2013
Susan Hammen	Treasurer	Indefinite
Rich Bordwell	Attorney	January 2013



Larry Pump, CPA  
117 North Jackson Street  
Charles City, IA 50616

E-mail: rlp@fiai.net

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

**INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and  
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Clarion, Iowa, as of and for the year ended June 30, 2012, 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 are 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, 2012, 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 October 29, 2012 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

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 eight years ended June 30, 2011 (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. The 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in my audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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. Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 9 and 29 through 31 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

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

October 29, 2012

## 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, 2012. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2012 FINANCIAL HIGHLIGHTS**

Receipts of the City's governmental activities increased 23.3%, or approximately \$700,000 from fiscal year 2011 to fiscal year 2012. Capital grants, contributions and restricted interest and property tax increased approximately \$413,000 and \$314,000, respectively, while other general receipts and operating grants, contributions and restricted interest receipts decreased approximately \$146,000 and \$32,000, respectively.

Disbursements of the City's governmental activities increased 12.5%, or approximately \$405,000, in fiscal year 2012 from fiscal year 2011. General government, capital projects and public works disbursements increased approximately \$151,000, \$120,000 and \$113,000, respectively.

The City's total cash basis net assets increased 3.1%, or approximately \$37,000, from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased approximately \$74,000 and the assets of the business type activities decreased by approximately \$36,000.

### **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 financial statement by providing information about the most significant funds.

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

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

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness.

## **BASIS OF ACCOUNTING**

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

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

### *Government-wide Financial Statement*

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

The Statement of Activities and Net Assets present 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 increased from a year ago, increasing from approximately \$555,000 to approximately \$629,000. 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>2012</u>	<u>2011</u>
Receipts:		
Program receipts:		
Charges for service	\$ 546	\$ 536
Operating grants, contributions and restricted interest	318	350
Capital grants, contributions and restricted interest	523	110
General receipts:		
Property tax	1,841	1,527
Local option sales tax	282	210
Unrestricted interest on investments	6	10
Other general receipts	120	266
Sale of land	<u>73</u>	<u>-</u>
Total receipts	<u>\$3,709</u>	<u>\$ 3,009</u>
Disbursements:		
Public safety	\$ 992	\$ 961
Public works	508	395
Health and social services	8	7
Culture and recreation	397	409
Community and economic development	202	229
General government	317	166
Debt service	736	708
Capital projects	<u>475</u>	<u>355</u>
Total disbursements	<u>\$3,635</u>	<u>\$ 3,230</u>
Change in cash basis net asset	\$ 74	\$ (221)
Cash basis net assets beginning of year	<u>555</u>	<u>776</u>
Cash basis net assets end of year	<u>\$ 629</u>	<u>\$ 555</u>

The City's total receipts for governmental activities increased 23.3%, or approximately \$700,000. The total cost of all programs and services increased approximately \$405,000, or 12.5%. The increase in receipts was primarily the result of money received for the airport improvement project. The increase in disbursements was due primarily to the airport capital project and equipment purchased.

The cost of all governmental activities this year was approximately \$3,635,000 compared to approximately \$3,230,000 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 approximately \$2,248,000 because some of the cost was paid by those directly benefited from the programs (approximately \$546,000) or by other governments and organizations which subsidized certain programs with grants, contributions, and restricted interest (approximately \$841,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2012 from approximately \$996,000 to approximately \$1,387,000.

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

	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 484	\$ 525
Sewer	369	353
Other	142	94
General receipts:		
Other general receipts	22	18
Total receipts	<u>\$ 1,017</u>	<u>\$ 990</u>
Disbursements:		
Water	\$ 527	\$ 484
Water debt service	142	142
Sewer	276	307
Other	108	98
Total disbursements	<u>\$ 1,053</u>	<u>\$ 1,031</u>
Change in cash basis net assets	\$ (36)	\$ (41)
Cash basis net assets beginning of year	<u>664</u>	<u>705</u>
Cash basis net assets end of year	<u>\$ 628</u>	<u>\$ 664</u>

Total business type activities receipts for the fiscal year were approximately \$1,017,000 compared to approximately \$990,000 last year. This increase was due primarily to storm sewer receipts. The cash balance decreased by approximately \$36,000 from the prior year. Total disbursements for the fiscal year increased by 2.1% to a total of approximately \$1,053,000.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Clarion completed the year, its governmental funds reported a combined fund balance of \$629,201, an increase of more than \$73,000 above last year's total of \$555,766. 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 \$63,605 from the prior year to \$216,120. Both receipts and disbursements increased from the prior year.

The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$100,871 to \$103,488 during the fiscal year. This decrease was attributable to equipment purchased during the year.

The Special Revenue, Tax Increment Financing Fund cash balance was \$80,390, a decrease of \$123,148 from the previous year. The decrease was the result of additional community and economic development projects.

The Debt Service Fund cash balance increased \$40,382 to \$(177,163) during the fiscal year. This increase is a result of a transfer in.

The Capital Projects, Community Center Fund cash balance decreased \$84,318 to \$75,070 at June 30, 2012, due to scheduled expenses during the year.

The Capital Projects, Library Sinking Fund cash balance increased \$82,200 to \$91,572, due to a transfer in.

The Capital Projects, Aquatic Sinking Fund cash balance increased \$66,538 to \$76,307, due to a transfer in.

The Capital Projects, Airport Fund cash balance decreased \$20,262 from the prior year to \$(104,168). This decrease was the result of expenses incurred that will be reimbursed at a later date.

The Capital Projects, Police/Ambulance Building Sinking Fund cash balance increased \$81,786 to \$92,975 during the fiscal year. This increase was the result of a transfer in.

The Capital Projects, Fire Station Fund had a transfer in of \$75,000 during the fiscal year. The cash balance was \$75,000 at June 30, 2012.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Enterprise, Water Fund cash balance decreased \$165,504 to \$100,838, due primarily to an operating transfer out to pay for debt payments during the year.

The Enterprise, Water Debt Service Fund cash balance was \$153,814, an increase of \$290 from the previous year. This increase was due to more funds transferred in than debt service payments.

The Enterprise, Water Bond Reserve Fund cash balance remained unchanged at \$85,000 at June 30, 2012, due to no activity during the year.

The Enterprise, Sewer Fund cash balance increased \$40,824 to \$70,844, due primarily to a decrease in operating disbursements from the prior year.

The Enterprise, Sewer Improvement Fund cash balance increased \$54,000 to \$108,000 due primarily to a transfer in.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 7, 2012 and resulted in an increase in operating disbursements in numerous City departments. The City had sufficient cash balances to absorb these additional costs.

The City exceeded the amounts budgeted in the public works, health and social services, culture and recreation, general government and debt service functions for the year ended June 30, 2012.

**DEBT ADMINISTRATION**

At June 30, 2012, the City had \$4,410,000 in notes and other long-term debt outstanding, compared to approximately \$5,080,000 last year, as shown below.

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

	June 30,	
	2012	2011
General obligation notes	\$ 2,480	\$ 2,910
Special assessment notes	45	60
Revenue notes	1,785	1,985
REDLA loan	100	125
Total	<u>\$ 4,410</u>	<u>\$ 5,080</u>

Debt decreased as a result of scheduled debt payments made during the year.

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 \$2,625,000 is significantly below its constitutional debt limit of \$5,895,115.

#### **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 2013 budget, tax rates and fees charged for various City activities. One of those factors is the economy.

Clarion continues to partner as team members with the Partnership for Growth Organization, Wright Medical Center and other local businesses for the betterment of providing economic development opportunities.

At this time, there is growth on both ends of Highway 3 with Hagie Manufacturing expansion on the West end and First Citizens National Bank and Ewing Funeral Home on the East end.

#### **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 Rochelle E. Pohlman, City Administrator, 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, 2012

		<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>	<u>Disbursements</u>			
Governmental activities:				
Public safety	\$ 992,386	\$ 280,504	\$ 13,900	\$ -
Public works	508,266	95,016	270,326	-
Health and social services	7,800	-	-	-
Culture and recreation	397,103	89,061	29,091	38,500
Community and economic Development	202,499	-	-	-
General government	316,751	50,401	-	-
Debt service	736,085	30,624	-	-
Capital projects	<u>474,787</u>	<u>-</u>	<u>4,800</u>	<u>484,557</u>
Total governmental activities	<u>\$3,635,677</u>	<u>\$ 545,606</u>	<u>\$ 318,117</u>	<u>\$ 523,057</u>
Business type activities:				
Water	\$ 526,710	\$ 483,823	\$ -	\$ -
Water debt service	141,982	-	-	-
Sewer	275,868	368,816	-	-
Other	<u>107,824</u>	<u>141,832</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$1,052,384</u>	<u>\$ 994,471</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$4,688,061</u>	<u>\$1,540,077</u>	<u>\$ 318,117</u>	<u>\$ 523,057</u>

(Continued)

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

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<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
\$ (697,982)	\$ -	\$ (697,982)
(142,924)	-	(142,924)
(7,800)	-	(7,800)
(240,451)	-	(240,451)
(202,499)	-	(202,499)
(266,350)	-	(266,350)
(705,461)	-	(705,461)
14,570	-	14,570
\$ (2,248,897)	\$ -	\$ (2,248,897)
\$ -	\$ (42,887)	\$ (42,887)
-	(141,982)	(141,982)
-	92,948	92,948
-	34,008	34,008
\$ -	\$ (57,913)	\$ (57,913)
\$ (2,248,897)	\$ (57,913)	\$ (2,306,810)

CITY OF CLARION, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

**General Receipts:**

- Property and other city tax levied for:
  - General purposes
  - Debt service
- Tax increment financing
- Local option sales tax
- Unrestricted interest on investments
- Miscellaneous
- Sale of land

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:

Nonexpendable:

- Cemetery perpetual care

Expendable:

- 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>
\$ 801,380	\$ -	\$ 801,380
293,604	-	293,604
746,232	-	746,232
282,158	-	282,158
5,922	-	5,922
120,036	21,702	141,738
<u>73,000</u>	<u>-</u>	<u>73,000</u>
<u>\$ 2,322,332</u>	<u>\$ 21,702</u>	<u>\$2,344,034</u>
\$ 73,435	\$ (36,211)	\$ 37,224
<u>555,766</u>	<u>664,022</u>	<u>1,219,788</u>
<u><b>\$ 629,201</b></u>	<u><b>\$ 627,811</b></u>	<u><b>\$1,257,012</b></u>
\$ 63,731	\$ -	\$ 63,731
35,077	-	35,077
117,014	-	117,014
167,879	238,814	406,693
108,412	-	108,412
<u>137,088</u>	<u>388,997</u>	<u>526,085</u>
<u><b>\$ 629,201</b></u>	<u><b>\$ 627,811</b></u>	<u><b>\$1,257,012</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, 2012**

	<u>General</u>	<u>Special Revenue</u>		
		<u>Local Option Sales Tax</u>	<u>Tax Increment Financing</u>	<u>Debt Service</u>
<b>RECEIPTS:</b>				
Property tax	\$ 532,749	\$ -	\$ -	\$ 293,604
Tax increment financing	-	-	746,232	-
Other city tax	-	282,158	-	-
Licenses and permits	10,137	-	-	-
Use of money and property	46,426	-	-	-
Intergovernmental	33,591	-	-	-
Charges for service	464,342	-	-	-
Special assessments	-	-	-	30,624
Miscellaneous	130,835	-	15,868	-
Total receipts	<u>\$1,218,080</u>	<u>\$ 282,158</u>	<u>\$ 762,100</u>	<u>\$ 324,228</u>
<b>DISBURSEMENTS:</b>				
Operating:				
Public safety	\$ 718,944	\$ 36,612	\$ -	\$ -
Public works	137,614	84,814	-	-
Health and social services	-	-	-	-
Culture and recreation	347,709	-	-	-
Community and economic development	-	-	174,532	-
General government	193,592	88,360	-	-
Debt service	-	-	355,192	380,893
Capital projects	-	-	-	6,427
Total disbursements	<u>\$1,397,859</u>	<u>\$ 209,786</u>	<u>\$ 529,724</u>	<u>\$ 387,320</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (179,779)</u>	<u>\$ 72,372</u>	<u>\$ 232,376</u>	<u>\$ (63,092)</u>
Other financing sources (uses):				
Sale of land	\$ 73,000	\$ -	\$ -	\$ -
Operating transfers in	60,000	-	-	103,474
Operating transfers out	(16,826)	(173,243)	(355,524)	-
Total other financing sources (uses)	<u>\$ 116,174</u>	<u>\$ (173,243)</u>	<u>\$ (355,524)</u>	<u>\$ 103,474</u>
Net change in cash balances	\$ (63,605)	\$ (100,871)	\$ (123,148)	\$ 40,382
Cash balances beginning of year	<u>279,725</u>	<u>204,359</u>	<u>203,538</u>	<u>(217,545)</u>
<b>Cash balances end of year</b>	<b><u>\$ 216,120</u></b>	<b><u>\$ 103,488</u></b>	<b><u>\$ 80,390</u></b>	<b><u>\$ (177,163)</u></b>
<b>Cash Basis Fund Balances</b>				
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -
Restricted for:				
Streets	-	-	-	-
Urban renewal purposes	-	-	80,390	-
Debt service	-	-	-	-
Other purposes	-	103,488	-	-
Assigned for:				
Community Center	-	-	-	-
Police/Ambulance Building	-	-	-	-
Fire Station	-	-	-	-
Other	33,492	-	-	-
Unassigned	<u>182,628</u>	<u>-</u>	<u>-</u>	<u>(177,163)</u>
<b>Total cash basis fund balances</b>	<b><u>\$ 216,120</u></b>	<b><u>\$ 103,488</u></b>	<b><u>\$ 80,390</u></b>	<b><u>\$ (177,163)</u></b>

*See Notes to Financial Statements.*

Capital Projects							
Community Center	Library Sinking	Aquatic Sinking	Airport	Police/Ambulance Building Sinking	Fire Station	Nonmajor	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 265,455	\$ 1,091,808
-	-	-	-	-	-	-	746,232
-	-	-	-	-	-	3,176	285,334
-	-	-	-	-	-	-	10,137
-	-	-	-	-	-	-	46,426
-	-	-	363,780	-	-	354,703	752,074
-	-	-	-	-	-	-	464,342
-	-	-	-	-	-	-	30,624
-	-	-	-	-	-	62,432	209,135
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 363,780</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 685,766</u>	<u>\$ 3,636,112</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 236,830	\$ 992,386
-	-	-	-	-	-	285,838	508,266
-	-	-	-	-	-	7,800	7,800
-	-	-	-	-	-	49,394	397,103
-	-	-	-	-	-	27,967	202,499
-	-	-	-	-	-	34,799	316,751
-	-	-	-	-	-	-	736,085
84,318	-	-	384,042	-	-	-	474,787
<u>\$ 84,318</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 384,042</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 642,628</u>	<u>\$ 3,635,677</u>
\$ (84,318)	\$ -	\$ -	\$ (20,262)	\$ -	\$ -	\$ 43,138	\$ 435
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 73,000
-	82,200	66,538	-	81,786	75,000	94,113	563,111
-	-	-	-	-	-	(17,518)	(563,111)
<u>\$ -</u>	<u>\$ 82,200</u>	<u>\$ 66,538</u>	<u>\$ -</u>	<u>\$ 81,786</u>	<u>\$ 75,000</u>	<u>\$ 76,595</u>	<u>\$ 73,000</u>
\$ (84,318)	\$ 82,200	\$ 66,538	\$ (20,262)	\$ 81,786	\$ 75,000	\$ 119,733	\$ 73,435
<u>159,388</u>	<u>9,372</u>	<u>9,769</u>	<u>(83,906)</u>	<u>11,189</u>	<u>-</u>	<u>(20,123)</u>	<u>555,766</u>
<u>\$ 75,070</u>	<u>\$ 91,572</u>	<u>\$ 76,307</u>	<u>\$ (104,168)</u>	<u>\$ 92,975</u>	<u>\$ 75,000</u>	<u>\$ 99,610</u>	<u>\$ 629,201</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,731	\$ 63,731
-	-	-	-	-	-	35,077	35,077
-	-	-	-	-	-	36,624	117,014
-	91,572	76,307	-	-	-	-	167,879
-	-	-	-	-	-	4,924	108,412
75,070	-	-	-	-	-	-	75,070
-	-	-	-	92,975	-	516	93,491
-	-	-	-	-	75,000	-	75,000
-	-	-	-	-	-	86	33,578
-	-	-	(104,168)	-	-	(41,348)	(140,051)
<u>\$ 75,070</u>	<u>\$ 91,572</u>	<u>\$ 76,307</u>	<u>\$ (104,168)</u>	<u>\$ 92,975</u>	<u>\$ 75,000</u>	<u>\$ 99,610</u>	<u>\$ 629,201</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, 2012

	Enterprise		
	Water	Water Debt Service	Water Bond Reserve
Operating receipts:			
Charges for service	\$ 483,823	\$ -	\$ -
Miscellaneous	2,434	-	-
Total operating receipts	\$ 486,257	\$ -	\$ -
Operating disbursements:			
Business type activities	457,733	-	-
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 28,524	\$ -	\$ -
Non-operating receipts (disbursements):			
Use of money and property	\$ 13,320	\$ -	\$ -
Miscellaneous	3,901	-	-
Debt service	-	(141,982)	-
Capital Projects	(68,977)	-	-
Net non-operating receipts (disbursements)	\$ (51,756)	\$ (141,982)	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ (23,232)	\$ (141,982)	\$ -
Other financing sources (uses):			
Operating transfers in	\$ -	\$ 142,272	\$ -
Operating transfers out	(142,272)	-	-
Total other financing sources (uses)	\$ (142,272)	\$ 142,272	\$ -
Net change in cash balances	\$ (165,504)	\$ 290	\$ -
Cash balances beginning of year	266,342	153,524	85,000
<b>Cash balances end of year</b>	<b>\$ 100,838</b>	<b>\$ 153,814</b>	<b>\$ 85,000</b>
<b>Cash Basis Fund Balances</b>			
Restricted for debt service	\$ -	\$ 153,814	\$ 85,000
Assigned for sewer improvement	-	-	-
Unrestricted	100,838	-	-
<b>Total cash basis fund balances</b>	<b>\$ 100,838</b>	<b>\$ 153,814</b>	<b>\$ 85,000</b>

See Notes to Financial Statements.

<u>Sewer</u>	<u>Sewer Improvement</u>	<u>Nonmajor</u>	<u>Total</u>
\$ 368,816	\$ -	\$ 141,832	\$ 994,471
-	-	-	2,434
\$ 368,816	\$ -	\$ 141,832	\$ 996,905
<u>275,868</u>	<u>-</u>	<u>107,305</u>	<u>840,906</u>
\$ 92,948	\$ -	\$ 34,527	\$ 155,999
\$ -	\$ -	\$ -	\$ 13,320
1,876	-	171	5,948
-	-	-	(141,982)
-	-	(519)	(69,496)
\$ 1,876	\$ -	\$ (348)	\$ (192,210)
\$ 94,824	\$ -	\$ 34,179	\$ (36,211)
\$ -	\$ 54,000	\$ -	\$ 196,272
(54,000)	-	-	\$ (196,272)
\$ (54,000)	\$ 54,000	\$ -	\$ -
\$ 40,824	\$ 54,000	\$ 34,179	\$ (36,211)
30,020	54,000	75,136	664,022
<b><u>\$ 70,844</u></b>	<b><u>\$ 108,000</u></b>	<b><u>\$ 109,315</u></b>	<b><u>\$ 627,811</u></b>
\$ -	\$ -	\$ -	\$ 238,814
-	108,000	-	108,000
70,844	-	109,315	280,997
<b><u>\$ 70,844</u></b>	<b><u>\$ 108,000</u></b>	<b><u>\$ 109,315</u></b>	<b><u>\$ 627,811</u></b>

CITY OF CLARION, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

(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, sewer, and landfill services 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 several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the 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, 2012

(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 the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable 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 categories. 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 from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

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 tax increment financing collections and the repayment of tax increment financing indebtedness.

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

CITY OF CLARION, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

(1) Summary of Significant Accounting Policies - continued

Capital Projects:

The Community Center Fund accounts for improvements.

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

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

The Airport Fund accounts for receipts and disbursements relating to airport improvements.

The Police/Ambulance Building Sinking Fund is utilized to account for the payment of interest and principal on the City's long-term debt.

The Fire Station Fund is used to account for receipts and disbursements relating to the fire station.

The City reports the following major proprietary funds:

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

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

The Enterprise, Water Bond Reserve Fund accounts for the reserve funds for future water system repairs and maintenance.

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

The Enterprise, Sewer Improvement Fund accounts for future sewer system repairs and maintenance.

C. Measurement Focus and Basis of Accounting

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

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

CITY OF CLARION, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2012

(1) Summary of Significant Accounting Policies - continued

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

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public works, health and social services, culture and recreation, general government and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 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.

At June 30, 2012, the City had the following investments:

	<u>Carrying Amount</u>	<u>Fair Value</u>
U.S. Savings Bond	<u>\$ 2,500</u>	<u>\$ 2,500</u>

**CITY OF CLARION, IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

(2) Cash and Pooled Investments - continued

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
2013	\$ 382,000	\$101,425	\$ 210,000	\$ 80,148	\$ 15,000	\$ 2,115	\$ 25,000	\$ -
2014	403,000	89,940	215,000	70,391	15,000	1,433	25,000	-
2015	418,000	77,003	230,000	60,347	15,000	364	25,000	-
2016	199,000	62,728	240,000	49,593	-	-	25,000	-
2017	200,000	54,512	255,000	38,292	-	-	-	-
2018-2022	518,000	167,901	550,000	78,889	-	-	-	-
2023-2027	295,000	73,688	85,000	3,400	-	-	-	-
2028	65,000	3,900	-	-	-	-	-	-
<b>Total</b>	<b>\$2,480,000</b>	<b>\$631,097</b>	<b>\$1,785,000</b>	<b>\$381,060</b>	<b>\$ 45,000</b>	<b>\$ 3,912</b>	<b>\$100,000</b>	<b>\$ -</b>

Year Ending June 30,	Total	
	Principal	Interest
2013	\$ 632,000	\$ 183,688
2014	658,000	161,764
2015	688,000	137,714
2016	464,000	112,321
2017	455,000	92,804
2018-2022	1,068,000	246,790
2023-2027	380,000	77,088
2028	65,000	3,900
<b>Total</b>	<b>\$4,410,000</b>	<b>\$1,016,069</b>

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 July 1, 2009, are subject to redemption and prepayment in inverse numerical order beginning June 1, 2018, 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 June 1, 2010, are subject to redemption and prepayment in any order of maturity beginning June 1, 2016, and on any interest payment date 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 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.

CITY OF CLARION, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

(3) Notes Payable - continued

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 \$521,672, payable through June 2020. For the current year, principal and interest paid were \$45,000 and \$21,138, 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 \$937,000, payable through June 2023. For the current year, principal and interest paid were \$50,000 and \$31,800, 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.

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 \$328,500. For the current year, principal and interest paid and total customer net receipts were \$66,770 and \$28,524, respectively.

**CITY OF CLARION, IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

(3) **Notes Payable** - continued

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

- a) The notes will only be redeemed from the future earnings of the enterprise activity and 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 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012, 2011 and 2010 were \$88,542, \$83,830 and \$76,602, respectively, equal to the required contributions for each year.

(5) **Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 18 active members and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$458 for single coverage and \$875 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$173,604 and plan members eligible for benefits contributed \$13,733 to the plan.

**CITY OF CLARION, IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave 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 sick leave payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 87,668
Sick leave	<u>12,627</u>
Total	<u>\$100,295</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

**(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 \$166,524 and \$73,228, 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:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$1,035,488</u>	<u>\$ 183,251</u>	<u>\$1,218,739</u>

**CITY OF CLARION, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**(8) Deficit Balances**

The Debt Service Fund had a deficit balance of \$177,163 at June 30, 2012. The deficit balance was a result of early debt retirement. The deficit will be eliminated upon future receipts.

At June 30, 2012, the Capital Projects, Library Building Fund had a deficit balance of \$41,348.

The Capital Projects, Airport Fund had a deficit balance of \$104,168 at June 30, 2012. This deficit will be eliminated upon future receipts.

**(9) Wright County Area Landfill Authority**

The City, in conjunction with city, town and unincorporated portion of Wright County, Iowa, has created the Wright County Area 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 the members. The governing body of the Authority consists of one representative from each member. Each member has one vote.

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, 2012, the City of Clarion paid the Authority \$71,250 for its share of the costs. Complete financial statements for the Authority can be obtained from the Wright County Area Landfill Authority.

**(10) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Local Option Sales Tax	\$ 60,000
Special Revenue: Employee Benefits	Special Revenue: Local Option Sales Tax	\$ 26,595
Tax Increment Financing Debt	Tax Increment Financing	50,000
Road Use Tax	Capital Projects: Flood	17,518
		<u>\$ 94,113</u>
Debt Service	General	\$ 16,826
	Special Revenue: Local Option Sales Tax	86,648
		<u>\$ 103,474</u>

CITY OF CLARION, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2012

(10) **Interfund Transfers** - continued

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Capital Projects:	Special Revenue:	
Library Sinking	Tax Increment Financing	\$ 82,200
Aquatic Sinking	Tax Increment Financing	66,538
Police/Ambulance Building Sinking	Tax Increment Financing	81,786
Fire Station	Tax Increment Financing	75,000
		<u>\$ 305,524</u>
Enterprise:	Enterprise:	
Water Debt Service	Water	\$ 142,272
Sewer Improvement	Sewer	54,000
		<u>\$ 196,272</u>
Total		<u>\$ 759,383</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, 2012, the following construction commitments had been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred to Date</u>
Sandblasting	<u>\$ 22,319</u>	<u>\$ -</u>

CITY OF CLARION, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

(13) Industrial Development Revenue Bonds

The City has issued a total of \$25,815,746 of industrial revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$23,917,060 is outstanding at June 30, 2012. The bonds and related interest are payable solely from the revenues generated by the entities, and the bond principal and interest do not constitute liabilities of the City.

(14) Subsequent Events

On July 16, 2012 the City Council approved a capital loan not to exceed \$100,000 for the purchase of an end loader.

On August 6, 2012 the City Council approved the storm water relief project in the amount of \$31,700.

**Other 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  
 OTHER INFORMATION  
 YEAR ENDED JUNE 30, 2012

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds Not Required <u>To Be Budgeted</u>
<b>RECEIPTS:</b>			
Property tax	\$ 1,091,808	\$ -	\$ -
Tax increment financing	746,232	-	-
Other city tax	285,334	-	-
Licenses and permits	10,137	-	-
Use of money and property	46,426	13,320	-
Intergovernmental	752,074	-	-
Charges for service	464,342	994,471	-
Special assessments	30,624	-	-
Miscellaneous	209,135	8,382	-
Total receipts	<u>\$ 3,636,112</u>	<u>\$1,016,173</u>	<u>\$ -</u>
<b>DISBURSEMENTS:</b>			
Public safety	\$ 992,386	\$ -	\$ -
Public Works	508,266	-	-
Health and social services	7,800	-	-
Culture and recreation	397,103	-	-
Community and economic development	202,499	-	-
General government	316,751	-	-
Debt service	736,085	-	-
Capital projects	474,787	-	-
Business type activities	-	1,052,384	-
Total disbursements	<u>\$ 3,635,677</u>	<u>\$1,052,384</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 435	\$ (36,211)	\$ -
Other financing sources, net	<u>73,000</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 73,435	\$ (36,211)	\$ -
Balances beginning of year	<u>555,766</u>	<u>664,022</u>	<u>-</u>
<b>Balances end of year</b>	<u><b>\$ 629,201</b></u>	<u><b>\$ 627,811</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>	
\$ 1,091,808	\$ 1,053,361	\$ 1,053,361	\$ 38,447
746,232	622,111	622,111	124,121
285,334	259,817	259,817	25,517
10,137	29,450	29,450	(19,313)
59,746	80,504	80,504	(20,758)
752,074	306,363	306,363	445,711
1,458,813	81,544,200	81,544,200	(80,085,387)
30,624	18,806	18,806	11,818
217,517	232,667	232,667	(15,150)
<u>\$ 4,652,285</u>	<u>\$84,147,279</u>	<u>\$ 84,147,279</u>	<u>\$(79,494,994)</u>
\$ 992,386	\$ 958,081	\$ 1,122,881	\$ 130,495
508,266	457,762	485,251	(23,015)
7,800	-	-	(7,800)
397,103	355,626	364,126	(32,977)
202,499	539,221	670,849	468,350
316,751	307,444	307,444	(9,307)
736,085	300,711	300,711	(435,374)
474,787	-	510,000	35,213
1,052,384	81,144,455	81,252,955	80,200,571
<u>\$ 4,688,061</u>	<u>\$84,063,300</u>	<u>\$ 85,014,217</u>	<u>\$ 80,326,156</u>
\$ (35,776)	\$ 83,979	\$ (866,938)	\$ 831,162
<u>73,000</u>	<u>-</u>	<u>950,917</u>	<u>(877,917)</u>
\$ 37,224	\$ 83,979	\$ 83,979	\$ (46,755)
<u>1,219,788</u>	<u>1,113,252</u>	<u>1,160,538</u>	<u>59,250</u>
<u><b>\$ 1,257,012</b></u>	<u><b>\$ 1,197,231</b></u>	<u><b>\$ 1,244,517</b></u>	<u><b>\$ 12,495</b></u>

**CITY OF CLARION, IOWA**  
**NOTES TO OTHER INFORMATION - BUDGETARY REPORTING**  
**JUNE 30, 2012**

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. 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 \$950,917. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public works, health and social services, culture and recreation, general government and debt service functions.

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, 2012

	Special Revenue			
	Road Use Tax	Employee Benefits	Hotel- Motel	Tax Increment Financing Debt
<b>RECEIPTS:</b>				
Property tax	\$ -	\$265,455	\$ -	\$ -
Other city tax	-	-	3,176	-
Intergovernmental	270,326	-	-	-
Miscellaneous	5,212	10,785	-	-
Total receipts	<u>\$275,538</u>	<u>\$276,240</u>	<u>\$ 3,176</u>	<u>\$ -</u>
<b>DISBURSEMENTS:</b>				
Operating:				
Public safety	\$ -	\$215,430	\$ -	\$ -
Public works	251,359	34,479	-	-
Health and social services	7,800	-	-	-
Culture and recreation	-	49,394	-	-
Community and economic development	-	-	-	23,167
General government	-	1,784	-	33,015
Total disbursements	<u>\$259,159</u>	<u>\$301,087</u>	<u>\$ -</u>	<u>\$ 56,182</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 16,379</u>	<u>\$(24,847)</u>	<u>\$ 3,176</u>	<u>\$(56,182)</u>
Other financing sources (uses):				
Operating transfers in	\$ 17,518	\$ 26,595	\$ -	\$ 50,000
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>\$ 17,518</u>	<u>\$ 26,595</u>	<u>\$ -</u>	<u>\$ 50,000</u>
Net change in cash balances	\$ 33,897	\$ 1,748	\$ 3,176	\$ (6,182)
Cash balances beginning of year	<u>1,180</u>	<u>-</u>	<u>-</u>	<u>42,806</u>
<b>Cash balances end of year</b>	<b><u>\$ 35,077</u></b>	<b><u>\$ 1,748</u></b>	<b><u>\$ 3,176</u></b>	<b><u>\$ 36,624</u></b>
<b>Cash Basis Fund Balances</b>				
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -
Restricted for:				
Urban renewal purposes	-	-	-	36,624
Other purposes	35,077	1,748	3,176	-
Assigned for capital projects	-	-	-	-
Unassigned	-	-	-	-
<b>Total cash basis fund balances</b>	<b><u>\$ 35,077</u></b>	<b><u>\$ 1,748</u></b>	<b><u>\$ 3,176</u></b>	<b><u>\$ 36,624</u></b>

*See Accompanying Independent Auditor's Report.*

<u>Capital Projects</u>					<u>Permanent</u>	
<u>Capital Projects</u>	<u>Flood</u>	<u>Library Building</u>	<u>Police/Ambulance Building</u>	<u>Critical Care</u>	<u>Cemetery Perpetual Care</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 265,455
-	-	-	-	-	-	3,176
-	84,377	-	-	-	-	354,703
4,800	-	36,400	-	-	5,235	62,432
<u>\$ 4,800</u>	<u>\$ 84,377</u>	<u>\$ 36,400</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,235</u>	<u>\$ 685,766</u>
\$ -	\$ -	\$ -	\$ -	\$ 21,400	\$ -	\$ 236,830
-	-	-	-	-	-	285,838
-	-	-	-	-	-	7,800
-	-	-	-	-	-	49,394
4,800	-	-	-	-	-	27,967
-	-	-	-	-	-	34,799
<u>\$ 4,800</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,400</u>	<u>\$ -</u>	<u>\$ 642,628</u>
\$ -	\$ 84,377	\$ 36,400	\$ -	\$ (21,400)	\$ 5,235	\$ 43,138
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 94,113
-	(17,518)	-	-	-	-	(17,518)
<u>\$ -</u>	<u>\$ (17,518)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,595</u>
\$ -	\$ 66,859	\$ 36,400	\$ -	\$ (21,400)	\$ 5,235	\$ 119,733
-	(66,859)	(77,748)	516	21,486	58,496	(20,123)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (41,348)</u>	<u>\$ 516</u>	<u>\$ 86</u>	<u>\$ 63,731</u>	<u>\$ 99,610</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,731	\$ 63,731
-	-	-	-	-	-	36,624
-	-	-	-	-	-	40,001
-	-	-	516	86	-	602
-	-	(41,348)	-	-	-	(41,348)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (41,348)</u>	<u>\$ 516</u>	<u>\$ 86</u>	<u>\$ 63,731</u>	<u>\$ 99,610</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, 2012

	<u>Enterprise</u>		
	<u>Landfill</u>	<u>Storm Sewer</u>	<u>Total</u>
Operating receipts:			
Charges for Service	\$ 89,964	\$ 51,868	\$141,832
Operating disbursements:			
Business type activities	<u>107,305</u>	<u>-</u>	<u>107,305</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$(17,341)</u>	<u>\$ 51,868</u>	<u>\$ 34,527</u>
Non-operating receipts (disbursements):			
Miscellaneous	\$ 171	\$ -	\$ 171
Capital projects	<u>-</u>	<u>(519)</u>	<u>(519)</u>
Net non-operating receipts (disbursements)	<u>\$ 171</u>	<u>\$ (519)</u>	<u>\$ (348)</u>
Net change in cash balances	\$(17,170)	\$ 51,349	\$ 34,179
Cash balances beginning of year	<u>75,136</u>	<u>-</u>	<u>75,136</u>
<b>Cash balances end of year</b>	<b><u>\$ 57,966</u></b>	<b><u>\$ 51,349</u></b>	<b><u>\$109,315</u></b>
<b>Cash Basis Fund Balance</b>			
<b>Unrestricted</b>	<b><u>\$ 57,966</u></b>	<b><u>\$ 51,349</u></b>	<b><u>\$109,315</u></b>

See Accompanying Independent Auditor's Report.

CITY OF CLARION, IOWA  
 SCHEDULE OF INDEBTEDNESS  
 YEAR ENDED JUNE 30, 2012

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
<b>General Obligation Notes:</b>			
Capital Loan Notes	12-15-92	5.90%	\$ 295,000
Capital Loan Notes	08-01-09	1.30 - 3.00	1,295,000
Capital Loan Notes	07-01-09	3.00 - 6.00	925,000
Capital Loan Notes	06-01-10	2.90 - 4.00	301,000
Capital Loan Notes	08-28-08	2.85 - 4.30	1,335,000
<b>Special Assessment Notes:</b>			
Street Improvement	10-01-04	2.80 - 4.85	\$ 130,000
<b>Urban Renewal Revenue Annual Appropriation</b>			
<b>Capital Loan Notes:</b>			
Aquatic Center	09-01-05	4.45%	\$ 950,000
Library	08-25-08	4.00	950,000
<b>Revenue Notes:</b>			
Water	07-01-76	5.00%	\$1,100,000
Water Capital Loan Notes	04-01-99	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>
\$ 13,871	\$ -	\$ 13,871	\$ -	\$ 410	\$ -
905,000	-	250,000	655,000	23,210	-
855,000	-	35,000	820,000	45,338	-
301,000	-	26,000	275,000	10,648	-
835,000	-	105,000	730,000	33,210	-
<u>\$2,909,871</u>	<u>\$ -</u>	<u>\$ 429,871</u>	<u>\$2,480,000</u>	<u>\$ 112,816</u>	<u>\$ -</u>
<u>\$ 60,000</u>	<u>\$ -</u>	<u>\$ 15,000</u>	<u>\$ 45,000</u>	<u>\$ 2,775</u>	<u>\$ -</u>
\$ 475,000	\$ -	\$ 45,000	\$ 430,000	\$ 21,138	\$ -
795,000	-	50,000	745,000	31,800	-
<u>\$1,270,000</u>	<u>\$ -</u>	<u>\$ 95,000</u>	<u>\$1,175,000</u>	<u>\$ 52,938</u>	<u>\$ -</u>
\$ 335,000	\$ -	\$ 50,000	\$ 285,000	\$ 16,770	\$ -
380,000	-	55,000	325,000	19,713	-
<u>\$ 715,000</u>	<u>\$ -</u>	<u>\$ 105,000</u>	<u>\$ 610,000</u>	<u>\$ 36,483</u>	<u>\$ -</u>
<u>\$ 125,000</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$5,079,871</u>	<u>\$ -</u>	<u>\$ 669,871</u>	<u>\$4,410,000</u>	<u>\$ 205,012</u>	<u>\$ -</u>
<u>\$1,202,012</u>	<u>\$ -</u>	<u>\$ 166,524</u>	<u>\$1,035,488</u>	<u>\$ 73,228</u>	<u>\$ -</u>
<u><u>\$6,281,883</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 836,395</u></u>	<u><u>\$5,445,488</u></u>	<u><u>\$ 278,240</u></u>	<u><u>\$ -</u></u>

CITY OF CLARION, IOWA  
NOTE MATURITIES  
JUNE 30, 2012

GENERAL OBLIGATION

Capital Loan Notes

Year Ending June 30,	<u>Issued August 28, 2008</u>		<u>Issued July 1, 2009</u>	
	Interest		Interest	
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>
2013	3.70%	\$110,000	2.90%	\$ 27,000
2014	3.90	115,000	2.90	28,000
2015	4.00	120,000	2.90	28,000
2016	4.10	125,000	2.90	29,000
2017	4.20	125,000	4.00	30,000
2018	4.30	135,000	4.00	31,000
2019		-	4.00	33,000
2020		-	4.00	34,000
2021		-	4.00	35,000
2022		-		-
2023		-		-
2024		-		-
2025		-		-
2026		-		-
2027		-		-
2028		-		-
<b>Total</b>		<b><u>\$730,000</u></b>		<b><u>\$ 275,000</u></b>

REVENUE NOTES

Water Capital  
Loan Note

Year Ending June 30	<u>Water</u>		<u>Water Capital</u>		<u>Total</u>
	<u>Issued July 1, 1976</u>		<u>Issued April 1, 1999</u>		
	Interest		Interest		
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	
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
<b>Total</b>		<b><u>\$285,000</u></b>		<b><u>\$325,000</u></b>	<b><u>\$ 610,000</u></b>

(continued)

**N O T E S**

<u>Issued August 1, 2009</u>		<u>Issued June 1, 2010</u>		<u>Total</u>
<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	
2.45%	\$ 210,000	4.25%	\$ 35,000	\$ 382,000
2.70	220,000	4.25	40,000	403,000
3.00	225,000	4.25	45,000	418,000
	-	5.00	45,000	199,000
	-	5.00	45,000	200,000
	-	5.00	45,000	211,000
	-	5.30	50,000	83,000
	-	5.30	50,000	84,000
	-	5.30	50,000	85,000
	-	5.75	55,000	55,000
	-	5.75	55,000	55,000
	-	5.75	55,000	55,000
	-	6.00	60,000	60,000
	-	6.00	60,000	60,000
	-	6.00	65,000	65,000
	-	6.00	65,000	65,000
	<u>\$ 655,000</u>		<u>\$820,000</u>	<u>\$2,480,000</u>

**SPECIAL ASSESSMENT NOTES**

<u>Street Improvements</u>	
<u>Issued October 1, 2004</u>	
<u>Interest Rates</u>	<u>Amount</u>
4.55%	\$ 15,000
4.70	15,000
4.85	15,000
	-
	-
	<u>\$ 45,000</u>

CITY OF CLARION, IOWA  
NOTE MATURITIES  
JUNE 30, 2012

Urban Renewal Revenue Annual Appropriation Capital Loan Notes

Year Ending June 30	<u>Issued September 1, 2005</u>		<u>Issued August 25, 2008</u>		<u>Total</u>
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	
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
<b>Total</b>		<b><u>\$430,000</u></b>		<b><u>\$745,000</u></b>	<b><u>\$1,175,000</u></b>

Year Ending June 30	<u>Rural Economic Development Loan Agreement</u>	
	<u>Issued November 21, 2005</u>	
	<u>Interest Rates</u>	<u>Amount</u>
2013	- %	\$ 25,000
2014	-	25,000
2015	-	25,000
2016	-	25,000
<b>Total</b>		<b><u>\$100,000</u></b>

See Accompanying Independent Auditor's Report.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Receipts:				
Property tax	\$1,091,808	\$1,038,298	\$1,010,658	\$ 959,947
Tax increment financing	746,232	489,154	542,614	456,344
Other city tax	285,334	209,764	223,491	224,715
Licenses and permits	10,137	6,321	6,477	5,955
Use of money and property	46,426	47,608	55,711	87,005
Intergovernmental	752,074	491,158	841,055	462,746
Charges for service	464,342	426,436	530,686	488,657
Special assessments	30,624	34,104	44,402	85,978
Miscellaneous	209,135	266,522	304,276	413,236
Total	<u>\$3,636,112</u>	<u>\$3,009,365</u>	<u>\$3,559,370</u>	<u>\$3,184,583</u>
Disbursements:				
Operating:				
Public safety	\$ 992,386	\$ 961,084	\$ 885,732	\$1,056,896
Public works	508,266	394,903	765,537	733,152
Health and social services	7,800	7,500	7,350	7,022
Culture and recreation	397,103	409,326	366,925	375,492
Community and economic development	202,499	228,793	261,555	110,772
General government	316,751	165,646	342,671	321,126
Debt Service	736,085	707,687	2,105,164	2,131,873
Capital projects	474,787	354,934	1,581,002	1,295,715
Total	<u>\$3,635,677</u>	<u>\$3,229,873</u>	<u>\$6,315,936</u>	<u>\$6,032,048</u>

*See Accompanying Independent Auditor's Report.*

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 910,621	\$ 899,589	\$ 922,979	\$ 906,335	\$ 803,611
388,179	362,842	371,856	376,982	312,304
255,882	273,021	191,882	265,184	192,088
7,263	3,618	6,285	4,617	5,507
89,445	79,990	76,866	66,533	56,817
311,185	539,300	525,710	479,669	288,939
488,216	357,334	530,990	382,081	198,059
182,667	113,334	142,873	257,755	250,396
<u>236,944</u>	<u>285,292</u>	<u>353,879</u>	<u>177,494</u>	<u>209,806</u>
<u>\$2,870,402</u>	<u>\$2,914,320</u>	<u>\$3,123,320</u>	<u>\$2,916,650</u>	<u>\$2,317,527</u>
\$ 732,866	\$ 678,174	\$ 671,442	\$ 567,306	\$ 536,686
531,856	418,022	686,333	610,639	1,259,778
6,750	5,600	5,600	-	-
336,437	330,504	301,154	299,356	303,255
112,474	523,301	185,926	70,848	172,148
285,943	203,553	159,698	195,578	197,765
651,190	613,441	944,070	597,032	581,359
<u>748,517</u>	<u>365,493</u>	<u>1,662,436</u>	<u>538,813</u>	<u>-</u>
<u>\$3,406,033</u>	<u>\$3,138,088</u>	<u>\$4,616,659</u>	<u>\$2,879,572</u>	<u>\$3,050,991</u>



Larry Pump, CPA  
117 North Jackson Street  
Charles City, IA 50616

E-mail: rlp@fiai.net

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

INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and  
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, 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, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated October 29, 2012. 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

The Management of the City of Clarion is responsible for establishing and maintaining effective 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 an 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses and other deficiencies I consider to be significant deficiencies.

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

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompanying Schedule of Findings as items B, C, D and E to be significant deficiencies.

#### 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 which 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, 2012 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, and 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.



October 29, 2012

CITY OF CLARION, IOWA  
Schedule of Findings  
Year Ended June 30, 2012

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL 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 utilizing currently available staff, including elected officials.

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)        Post-dated checks - I noted several checks that cleared the bank prior to the date the check was issued.

Recommendation - The City should avoid the use of post-dating checks.

Response - We will discontinue the use of post-dating checks in the future.

Conclusion - Response accepted.

- (C)        Bank Signature Cards - I noted that one bank signature card was 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.

- (D)        Payroll Wage Rates - One important aspect of internal accounting control is the proper authorization to support wage rates paid to employees. I noted part-time employees were not listed on the salary resolutions.

Recommendation - The City should compensate its employees per the salary resolution. All employees/positions should be listed and any raises should be handled correctly by amending the existing salary resolution.

Response - We will follow the salary resolution.

Conclusion - Response accepted.

CITY OF CLARION, IOWA  
Schedule of Findings  
Year Ended June 30, 2012

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

(E)        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 and fund balances 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.

(F)        Preparation of Financial Statements - The City does not have an internal control system designed to provide for the preparation of the financial statements in accordance with an other comprehensive basis of accounting, nor has management identified risks related to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements. Therefore, as an auditor, I was requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation - I recognize that with a limited number of office employees, preparation of the financial statements is difficult. However, I recommend that City officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances.

Response - The City will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

**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, 2012 exceeded the amounts budgeted in the public works, health and social services, culture and recreation, general government 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." Also, the City's amended budget figures in "Total Budget as Certified or Last Amended" does not agree with the original budget in the public safety, culture and recreation, community and economic development and general government functions and also the beginning fund balance.

CITY OF CLARION, IOWA  
Schedule of Findings  
Year Ended June 30, 2012

Other Findings Related to Required Statutory Reporting: - continued

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. Also, the City should ensure that budget amendment amounts are transferred correctly from the original to the amended budget.

Response - The budget will be amended in the future, if applicable, and the City will be more careful in copying budget figures.

Conclusion - Response accepted.

- (2) Questionable Disbursements - Certain disbursements I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Heaven Scent Floral & Gift	Flower arrangements for funeral services	\$ 91

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

- (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 ensure that the coverage is adequate for current operations.
- (6) Council Minutes - No transactions were found that I believe should have been approved in the 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.

**CITY OF CLARION, IOWA  
Schedule of Findings  
Year Ended June 30, 2012**

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

(8) Other Information Required by Bond and Note Resolutions - The following insurance policies were in force at June 30, 2012:

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>
Employers Mutual Casualty	Commercial property	\$9,858,432	April 1, 2013
Employers Mutual Casualty	General liability:		
	General aggregate limit	\$2,000,000	April 1, 2013
	Products/complete operation	2,000,000	April 1, 2013
	Personal and/or advertising		
	Injury limit	1,000,000	April 1, 2013
	Each occurrence limit	1,000,000	April 1, 2013
	Fire damage limit	100,000	April 1, 2013
	Medical expense limit	5,000	April 1, 2013
Employers Mutual Casualty	Inland marine:		
	Contractor's equipment	\$ 526,800	April 1, 2013
	Valuable papers and records	Various	April 1, 2013
Employers Mutual Casualty	Commercial Automobile:		
	Liability	\$1,000,000	April 1, 2013
	Auto medical payments	5,000	April 1, 2013
	Uninsured motorists	50,000	April 1, 2013
	Underinsured motorists	50,000	April 1, 2013
	Comprehensive	Actual cash value or cost of repairs whichever is less minus deductible as shown on schedule for each covered auto	April 1, 2013
	Collision	Actual cash value or cost of repairs whichever is less minus deductible as shown on schedule for each covered auto	April 1, 2013
Employers Mutual Casualty	Commercial Crime -		
	Inside premises	\$ 25,000	April 1, 2013
	Commercial Crime -		
	Outside premises	25,000	April 1, 2013
	Public Employee Dishonesty	175,000	April 1, 2013
	Forgery/Alteration	10,000	April 1, 2013
	Computer/Funds Transfer Fraud	50,000	April 1, 2013
Employers Mutual Casualty	Commercial Umbrella:		
	Occurrence limit	\$5,000,000	April 1, 2013
	Aggregate limit	5,000,000	April 1, 2013
Employers Mutual Casualty	Linebacker:		
	Occurrence limit	\$1,000,000	April 1, 2013
	Aggregate limit	1,000,000	April 1, 2013
US Specialty Insurance Co.	General Liability: Airport		
	Occurrence limit	\$1,000,000	May 8, 2013
	Aggregate limit	1,000,000	
Iowa Municipalities Workers' Compensation Association	Workers' Compensation Self Insurance Retention: Each occurrence	\$1,000,000	July 1, 2012

CITY OF CLARION, IOWA  
Schedule of Findings  
Year Ended June 30, 2012

Other Findings Related to Required Statutory Reporting: - continued

- (9) Financial Condition - At June 30, 2012, the Debt Service Fund had a deficit balance of \$177,163, while the Capital Projects, Library Building and Airport Funds had deficit balances of \$41,348 and \$104,168, respectively.

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

Response - The deficits will be eliminated.

Conclusion - Response accepted.

- (10) 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

- (11) 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.