

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

JUNE 30, 2013

- 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 2014
Kirk Rier	Mayor Pro tem	January 2014
Cory Abels	Council Member	October 7, 2013
Duane Asbe	Council Member	January 2014
Steve Evans	Council Member	January 2016
Lindsey German	Council Member	January 2016
Rochelle Pohlman	City Administrator/Clerk	January 2014
Susan Hammen	Treasurer	Indefinite
Rich Bordwell	Attorney	January 2014



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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
 Members of the City Council:

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Basis for Qualified Opinion

As more fully described in Note 1 to the financial statements, the financial statements referred to above do not include the financial transactions of the Iowa Specialty Hospital - Clarion, 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.

Qualified Opinions

In my opinion, except for the effects on the financial statements due to the exclusion of the financial transactions of the Iowa Specialty Hospital - Clarion 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, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

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 third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed qualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. 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.

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

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 9 and 28 through 30 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated October 8, 2013 on my consideration of the City of Clarion's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of 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 in considering The City of Clarion's internal control over financial reporting and compliance.



October 8, 2013

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, 2013. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 36.2%, or approximately \$1,341,000 from fiscal year 2012 to fiscal year 2013. Operating grants, contributions and restricted interest and bond and note proceeds increased approximately \$9,000 and \$2,008,000, respectively, while sale of land and capital grants, contributions and restricted interest receipts decreased approximately \$73,000 and \$495,000, respectively.

Disbursements of the City's governmental activities increased 16.7%, or approximately \$608,000, in fiscal year 2013 from fiscal year 2012. Debt Service disbursements increased approximately \$1,122,000, capital projects, general government and public safety disbursements decreased approximately \$128,000, \$109,000 and \$103,000, respectively.

The City's total cash basis net position increased 88.7%, or approximately \$1,115,000, from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities increased approximately \$807,000 and the cash basis net position of the business type activities increased by approximately \$308,000.

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 Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

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

Supplementary Information provides detailed information about the nonmajor governmental 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 Position reports information which helps answer this question.

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

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

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

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

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax 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 position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$629,000 to approximately \$1,436,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

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

	<u>Year ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Receipts:		
Program receipts:		
Charges for service	\$ 506	\$ 546
Operating grants, contributions and restricted interest	327	318
Capital grants, contributions and restricted interest	28	523
General receipts:		
Property tax	1,799	1,841
Local option sales tax	251	282
Unrestricted interest on investments	8	6
Bond and note proceeds, net	2,008	-
Other general receipts	123	120
Sale of land	-	73
Total receipts	<u>\$5,050</u>	<u>\$ 3,709</u>
Disbursements:		
Public safety	\$ 889	\$ 992
Public works	457	508
Health and social services	6	8
Culture and recreation	314	397
Community and economic development	164	202
General government	208	317
Debt service	1,858	736
Capital projects	347	475
Total disbursements	<u>\$4,243</u>	<u>\$ 3,635</u>
Change in cash basis net position	\$ 807	\$ 74
Cash basis net position beginning of year	<u>629</u>	<u>555</u>
Cash basis net position end of year	<u>\$1,436</u>	<u>\$ 629</u>

The City's total receipts for governmental activities increased 36.2%, or approximately \$1,341,000. The total cost of all programs and services increased approximately \$608,000, or 16.7%. The increase in receipts was primarily the result of proceeds received from the issuance of general obligation bonds and notes and urban renewal refunding bonds. The increase in disbursements was due primarily to the refunding of the debt payments.

The cost of all governmental activities this year was approximately \$4,243,000 compared to approximately \$3,635,000 last year. However, as shown in the Statement of Activities and Net Position on pages 10-13, the amount taxpayers ultimately financed for these activities was approximately \$3,382,000 because some of the cost was paid by those directly benefited from the programs (approximately \$506,000) or by other governments and organizations which subsidized certain programs with grants, contributions, and restricted interest (approximately \$355,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2013 from approximately \$1,387,000 to approximately \$861,000.

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

	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 623	\$ 484
Sewer	525	369
Other	155	142
General receipts:		
Bond and note proceeds, net	492	-
Other general receipts	14	22
Total receipts	\$ 1,809	\$ 1,017
Disbursements:		
Water	\$ 397	\$ 527
Water debt service	669	142
Sewer	321	276
Other	114	108
Total disbursements	\$ 1,501	\$ 1,053
Change in cash basis net position	\$ 308	\$ (36)
Cash basis net position beginning of year	628	664
Cash basis net position end of year	\$ 936	\$ 628

Total business type activities receipts for the fiscal year were approximately \$1,809,000 compared to approximately \$1,017,000 last year. This increase was due primarily to an increase in water and sewer receipts and bond and note proceeds. The cash balance increased by approximately \$308,000 from the prior year. Total disbursements for the fiscal year increased by 42.5% to a total of approximately \$1,501,000 due mainly to debt service payments.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Clarion completed the year, its governmental funds reported a combined fund balance of \$1,435,693, an increase of more than \$806,000 above last year's total of \$629,201. 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 \$54,373 from the prior year to \$161,747. Both receipts and disbursements decreased from the prior year.

The Special Revenue, Local Option Sales Tax Fund cash balance increased \$224,570 to \$328,058 during the fiscal year. This increase was attributable to transfers in and fewer disbursements during the year.

The Special Revenue, Tax Increment Financing Fund cash balance was \$(48,291), a decrease of \$128,681 from the previous year. The decrease was the result of fewer tax increment financing receipts and operating transfers out.

The Capital Projects, Library Sinking Fund cash balance increased \$82,200 to \$173,772, due to a transfer in.

The Capital Projects, Storm Sewer Projects cash balance increased \$391,415 to \$391,415, due to bond and note proceeds during the year.

The Capital Projects, Police/Ambulance Building Sinking Fund cash balance increased \$81,786 to \$174,761 during the fiscal year. This increase was the result of a transfer in.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance increased \$93,829 to \$194,667, due primarily to an increase in charges for service and no capital projects during the year.

The Enterprise, Water Debt Service Fund cash balance was \$119,062, a decrease of \$34,752 from the previous year. This decrease was due to debt service payments made during the year.

The Enterprise, Sewer Fund cash balance increased \$153,813 to \$224,657, due primarily to an increase in charges for service from the prior year.

The Enterprise, Sewer Improvement Fund cash balance increased \$54,000 to \$162,000 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 6, 2013 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 health and social services, debt service and capital projects functions for the year ended June 30, 2013.

DEBT ADMINISTRATION

At June 30, 2013, the City had \$4,602,000 of bonds and notes and other long-term debt outstanding, compared to approximately \$4,410,000 last year, as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2013	2012
General obligation notes	\$ 2,895	\$ 2,480
Special assessment notes	30	45
Revenue bonds and notes	1,602	1,785
REDLA loan	75	100
Total	<u>\$ 4,602</u>	<u>\$ 4,410</u>

Debt increased as a result of issuing general obligation bonds and notes for a storm water project. In addition, the City issued urban renewal revenue refunding bonds for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City.

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 \$4,101,748 is significantly below its constitutional debt limit of \$5,769,125.

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 2014 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, Iowa Specialty Hospital - Clarion 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, a planned right turn lane is planned for the spring of 2014. Clarion continues to partner with i2i Clarion, Inc. on a new housing development 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 1st SW, Clarion, Iowa 50525.

Basic Financial Statements

CITY OF CLARION, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

		<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:	<u>Disbursements</u>			
Governmental activities:				
Public safety	\$ 889,130	\$ 184,249	\$ 4,500	\$ -
Public works	457,082	73,969	272,933	28,028
Health and social services	6,269	-	-	-
Culture and recreation	313,813	88,690	34,645	-
Community and economic Development	164,327	-	14,826	-
General government	207,396	132,988	-	-
Debt service	1,858,014	26,024	-	-
Capital projects	<u>347,357</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$4,243,388</u>	<u>\$ 505,920</u>	<u>\$ 326,904</u>	<u>\$ 28,028</u>
Business type activities:				
Water	\$ 397,188	\$ 623,090	\$ -	\$ -
Water debt service	669,161	-	-	-
Sewer	320,690	525,546	-	-
Other	<u>113,927</u>	<u>154,963</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$1,500,966</u>	<u>\$1,303,599</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$5,744,354</u>	<u>\$1,809,519</u>	<u>\$ 326,904</u>	<u>\$ 28,028</u>

(Continued)

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (700,381)	\$ -	\$ (700,381)
(82,152)	-	(82,152)
(6,269)	-	(6,269)
(190,478)	-	(190,478)
(149,501)	-	(149,501)
(74,408)	-	(74,408)
(1,831,990)	-	(1,831,990)
<u>(347,357)</u>	<u>-</u>	<u>(347,357)</u>
\$ (3,382,536)	\$ -	\$ (3,382,536)
\$ -	\$ 225,902	\$ 225,902
-	(669,161)	(669,161)
-	204,856	204,856
<u>-</u>	<u>41,036</u>	<u>41,036</u>
\$ -	\$ (197,367)	\$ (197,367)
<u>\$ (3,382,536)</u>	<u>\$ (197,367)</u>	<u>\$ (3,579,903)</u>

CITY OF CLARION, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

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
- Bond and note proceeds, net

Total general receipts

Change in cash basis net position

Cash basis net position beginning of year

Cash basis net position end of year

Cash Basis Net Position

Restricted:

Nonexpendable:

- Cemetery perpetual care

Expendable:

- Streets

- Urban renewal purposes

- Debt service

- Other purposes

Unrestricted

Total cash basis net position

See Notes to Financial Statements.

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 917,788	\$ -	\$ 917,788
332,631	-	332,631
548,881	-	548,881
251,129	-	251,129
7,891	-	7,891
123,197	13,760	136,957
<u>2,007,511</u>	<u>492,137</u>	<u>2,499,648</u>
<u>\$ 4,189,028</u>	<u>\$ 505,897</u>	<u>\$4,694,925</u>
\$ 806,492	\$ 308,530	\$1,115,022
629,201	627,811	1,257,012
<u>\$ 1,435,693</u>	<u>\$ 936,341</u>	<u>\$2,372,034</u>
\$ 66,881	\$ -	\$ 66,881
62,193	-	62,193
34,020	-	34,020
316,616	204,062	520,678
402,125	-	402,125
<u>553,858</u>	<u>732,279</u>	<u>1,286,137</u>
<u>\$ 1,435,693</u>	<u>\$ 936,341</u>	<u>\$2,372,034</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, 2013

	<u>General</u>	<u>Special Revenue</u>		<u>Capital</u>
		<u>Local Option Sales Tax</u>	<u>Tax Increment Financing</u>	<u>Library Sinking</u>
RECEIPTS:				
Property tax	\$ 581,174	\$ -	\$ -	\$ -
Tax increment financing	-	-	548,881	-
Other city tax	-	251,129	-	-
Licenses and permits	6,356	-	-	-
Use of money and property	116,946	-	-	-
Intergovernmental	39,145	-	14,826	-
Charges for service	346,682	-	-	-
Special assessments	-	-	-	-
Miscellaneous	88,155	-	-	-
Total receipts	<u>\$1,178,458</u>	<u>\$ 251,129</u>	<u>\$ 563,707</u>	<u>\$ -</u>
DISBURSEMENTS:				
Operating:				
Public safety	\$ 653,188	\$ 45,205	\$ -	\$ -
Public works	127,876	62,471	-	-
Health and social services	-	-	-	-
Culture and recreation	265,160	-	-	-
Community and economic development	-	-	104,388	-
General government	186,607	18,883	-	-
Debt service	-	-	1,507,094	-
Capital projects	-	-	-	-
Total disbursements	<u>\$1,232,831</u>	<u>\$ 126,559</u>	<u>\$ 1,611,482</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (54,373)</u>	<u>\$ 124,570</u>	<u>\$ (1,047,775)</u>	<u>\$ -</u>
Other financing sources (uses):				
Bond and note proceeds	\$ -	\$ 100,000	\$ 1,213,000	\$ -
Bond and note issue costs	-	-	(13,383)	-
Operating transfers in	-	-	-	82,200
Operating transfers out	-	-	(280,523)	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 919,094</u>	<u>\$ 82,200</u>
Change in cash balances	\$ (54,373)	\$ 224,570	\$ (128,681)	\$ 82,200
Cash balances beginning of year	<u>216,120</u>	<u>103,488</u>	<u>80,390</u>	<u>91,572</u>
Cash balances end of year	<u>\$ 161,747</u>	<u>\$ 328,058</u>	<u>\$ (48,291)</u>	<u>\$ 173,772</u>
Cash Basis Fund Balances				
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -
Restricted for:				
Streets	-	-	-	-
Urban renewal purposes	-	-	-	-
Debt service	-	-	-	173,772
Other purposes	-	328,058	-	-
Assigned for:				
Community Center	-	-	-	-
Storm Sewer Projects	-	-	-	-
Police/Ambulance Building	-	-	-	-
Fire Station	-	-	-	-
Other	67,178	-	-	-
Unassigned	<u>94,569</u>	<u>-</u>	<u>(48,291)</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 161,747</u>	<u>\$ 328,058</u>	<u>\$ (48,291)</u>	<u>\$ 173,772</u>

See Notes to Financial Statements.

<u>Projects</u>			
<u>Storm Sewer Projects</u>	<u>Police/Ambulance Building Sinking</u>	<u>Nonmajor</u>	<u>Total</u>
\$ -	\$ -	\$ 650,339	\$ 1,231,513
-	-	-	548,881
-	-	18,906	270,035
-	-	-	6,356
-	-	-	116,946
-	-	300,961	354,932
-	-	-	346,682
-	-	26,024	26,024
-	-	52,845	141,000
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,049,075</u>	<u>\$ 3,042,369</u>
\$ -	\$ -	\$ 190,737	\$ 889,130
-	-	266,735	457,082
-	-	6,269	6,269
-	-	48,653	313,813
-	-	59,939	164,327
-	-	1,906	207,396
-	-	350,920	1,858,014
316,479	-	30,878	347,357
<u>\$ 316,479</u>	<u>\$ -</u>	<u>\$ 956,037</u>	<u>\$ 4,243,388</u>
\$ (316,479)	\$ -	\$ 93,038	\$ (1,201,019)
\$ 716,000	\$ -	\$ -	\$ 2,029,000
(8,106)	-	-	(21,489)
-	81,786	116,537	280,523
<u>-</u>	<u>-</u>	<u>-</u>	<u>(280,523)</u>
<u>\$ 707,894</u>	<u>\$ 81,786</u>	<u>\$ 116,537</u>	<u>\$ 2,007,511</u>
\$ 391,415	\$ 81,786	\$ 209,575	\$ 806,492
-	92,975	44,656	629,201
<u>\$ 391,415</u>	<u>\$ 174,761</u>	<u>\$ 254,231</u>	<u>\$ 1,435,693</u>
\$ -	\$ -	\$ 66,881	\$ 66,881
-	-	62,193	62,193
-	-	34,020	34,020
-	-	142,844	316,616
-	-	74,067	402,125
-	-	75,070	75,070
391,415	-	-	391,415
-	174,761	516	175,277
-	-	75,000	75,000
-	-	86	67,264
-	-	(276,446)	(230,168)
<u>\$ 391,415</u>	<u>\$ 174,761</u>	<u>\$ 254,231</u>	<u>\$ 1,435,693</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, 2013

	Enterprise		
	Water	Water Debt Service	Sewer
	Water	Service	Sewer
Operating receipts:			
Charges for service	\$ 623,090	\$ -	\$ 525,546
Miscellaneous	3,858	-	-
Total operating receipts	\$ 626,948	\$ -	\$ 525,546
Operating disbursements:			
Business type activities	397,188	-	320,690
Excess of operating receipts over operating disbursements	\$ 229,760	\$ -	\$ 204,856
Non-operating receipts (disbursements):			
Use of money and property	\$ 3,420	\$ -	\$ -
Miscellaneous	2,921	-	2,957
Debt service	-	(662,268)	-
Capital projects	-	(6,893)	-
Net non-operating receipts (disbursements)	\$ 6,341	\$ (669,161)	\$ 2,957
Excess (deficiency) of receipts over (under) disbursements	\$ 236,101	\$ (669,161)	\$ 207,813
Other financing sources (uses):			
Bond proceeds	\$ -	\$ 500,000	\$ -
Bond issue costs	-	(7,863)	-
Operating transfers in	-	142,272	-
Operating transfers out	(142,272)	-	(54,000)
Total other financing sources (uses)	\$ (142,272)	\$ 634,409	\$ (54,000)
Change in cash balances	\$ 93,829	\$ (34,752)	\$ 153,813
Cash balances beginning of year	100,838	153,814	70,844
Cash balances end of year	\$ 194,667	\$ 119,062	\$ 224,657
Cash Basis Fund Balances			
Restricted for debt service	\$ -	\$ 119,062	\$ -
Assigned for sewer improvement	-	-	-
Unrestricted	194,667	-	224,657
Total cash basis fund balances	\$ 194,667	\$ 119,062	\$ 224,657

See Notes to Financial Statements.

<u>Sewer Improvement</u>	<u>Nonmajor</u>	<u>Total</u>
\$ -	\$ 154,963	\$ 1,303,599
-	-	3,858
<u>\$ -</u>	<u>\$ 154,963</u>	<u>\$ 1,307,457</u>
-	97,660	815,538
<u>\$ -</u>	<u>\$ 57,303</u>	<u>\$ 491,919</u>
\$ -	\$ -	\$ 3,420
-	604	6,482
-	-	(662,268)
<u>-</u>	<u>(16,267)</u>	<u>(23,160)</u>
<u>\$ -</u>	<u>\$ (15,663)</u>	<u>\$ (675,526)</u>
<u>\$ -</u>	<u>\$ 41,640</u>	<u>\$ (183,607)</u>
\$ -	\$ -	\$ 500,000
-	-	(7,863)
54,000	-	196,272
<u>-</u>	<u>-</u>	<u>(196,272)</u>
<u>\$ 54,000</u>	<u>\$ -</u>	<u>\$ 492,137</u>
\$ 54,000	\$ 41,640	\$ 308,530
108,000	194,315	627,811
<u>\$ 162,000</u>	<u>\$ 235,955</u>	<u>\$ 936,341</u>
\$ -	\$ 85,000	\$ 204,062
162,000	-	162,000
<u>-</u>	<u>150,955</u>	<u>570,279</u>
<u>\$ 162,000</u>	<u>\$ 235,955</u>	<u>\$ 936,341</u>

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

Jointly Governed Organizations

The City participates in 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 Cash Basis Statement of Activities and Net Position (previously referred to as 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, 2013

(1) **Summary of Significant Accounting Policies** - continued

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on cash balances imposed by management which can be removed or modified.

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

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

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) Summary of Significant Accounting Policies - continued

Capital Projects:

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

The Storm Sewer Projects Fund accounts for receipts and disbursements relating to storm sewer 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 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, 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.

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.

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) Summary of Significant Accounting Policies - continued

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, 2013, disbursements exceeded the amounts budgeted in the health and social services, debt service and capital projects functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2013 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.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Bonds		Special Assessment Notes		Other Loans	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 476,444	\$106,286	\$ 247,000	\$ 24,593	\$ 15,000	\$ 1,433	\$ 25,000	\$ -
2015	492,931	92,051	250,000	25,124	15,000	364	25,000	-
2016	275,429	76,454	254,000	21,880	-	-	25,000	-
2017	277,944	66,883	225,000	18,587	-	-	-	-
2018	269,000	57,002	127,000	15,650	-	-	-	-
2019-2023	666,000	182,509	499,000	33,475	-	-	-	-
2024-2028	437,000	61,238	-	-	-	-	-	-
Total	\$2,894,748	\$642,423	\$1,602,000	\$139,309	\$ 30,000	\$ 1,797	\$ 75,000	\$ -

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(3) Bonds and Notes Payable - continued

Year Ending June 30,	Total	
	Principal	Interest
2014	\$ 763,444	\$ 132,312
2015	782,931	117,539
2016	554,429	98,334
2017	502,944	85,470
2018	396,000	72,652
2019-2023	1,165,000	215,984
2024-2028	437,000	61,238
Total	<u>\$4,601,748</u>	<u>\$ 783,529</u>

The resolutions providing for the issuance of the general obligation bond and 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.
- (d) At the option of the City, bonds due on the Storm Water Bonds issue of April 1, 2013, are subject to redemption and prepayment in inverse numerical order beginning April 1, 2019, 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 Refunding Bonds

The City issued \$1,213,000 of urban renewal revenue annual appropriation refunding bonds in March 2013 for the purpose of refunding the aquatic center and library urban renewal annual appropriation capital loan notes. 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 \$1,229,979, payable through June 2023. For the current year, principal and interest paid were \$111,000 and \$5,042, respectively.

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(3) Bond and Notes Payable - continued

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

- (a) The bonds will only be redeemed from the net revenues of the urban renewal projects.

Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$500,000 in water revenue bonds issued in February 2013. Proceeds from the bonds provided financing for the refunding of water revenue notes issued in 1976 and 1999. The bonds are payable solely from water customer net receipts and are payable through 2017. Annual principal and interest payments on the bonds are expected to require less than 13 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$511,330. For the current year, principal and interest paid and total customer net receipts were \$0 and \$229,760, respectively.

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

- a) The bonds 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 bond sinking accounts within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- c) Additional monthly transfers shall be made to water revenue bond 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.

On January 7, 2013, the City was awarded a State Revolving Loan in the amount of \$250,000 to upgrade the wastewater treatment plant. No money was drawn down as of June 30, 2013.

(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.

**CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

(4) Pension and Retirement Benefits - continued

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% 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, 2013, 2012 and 2011 were \$94,589, \$88,542 and \$83,830, 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, retirees and their spouses. There are 19 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 \$504 for single coverage and \$1,107 for family coverage. For the year ended June 30, 2013, the City contributed \$155,281 and plan members eligible for benefits contributed \$13,305 to the plan.

(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, 2013, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 89,364
Sick leave	13,584
Total	<u>\$102,948</u>

This liability has been computed based on rates of pay in effect at June 30, 2013.

(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.

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(7) **Leases** - continued

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 \$177,677 and \$62,075, respectively, were paid directly by the Foundation. The City's obligations under this lease purchase agreement are not general obligations of the City.

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

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 857,811</u>	<u>\$ 121,176</u>	<u>\$ 978,987</u>

(8) **Deficit Balances**

At June 30, 2013, the Special Revenue, Tax Increment Financing Fund had a deficit balance of \$48,291.

The Debt Service Fund had a deficit balance of \$175,383 at June 30, 2013. The deficit balance was a result of early debt retirement. The deficit will be eliminated upon future receipts.

The Capital Projects, Airport Fund had a deficit balance of \$101,063 at June 30, 2013. 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, 2013, 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.

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(10) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:		
Tax Increment Financing Debt	Special Revenue: Tax Increment Financing	\$ 50,000
Capital Projects:		
Library Sinking	Special Revenue: Tax Increment Financing	\$ 82,200
Aquatic Sinking	Tax Increment Financing	66,537
Police/Ambulance Building Sinking	Tax Increment Financing	81,786
		<u>\$ 230,523</u>
Enterprise:	Enterprise:	
Water Debt Service	Water	\$ 142,272
Sewer Improvement	Sewer	54,000
		<u>\$ 196,272</u>
Total		<u>\$ 476,795</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, 2013, the following construction commitments had been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred to Date</u>
2013 storm sewer	\$ 530,770	\$ 302,754
Airport hanger	482,199	-
Total	<u>\$1,012,969</u>	<u>\$ 302,754</u>

CITY OF CLARION, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(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 \$22,787,113 is outstanding at June 30, 2013. 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 October 7, 2013, the City approved an amendment to the 2013 Storm Sewer Project in the amount of \$2,800 for additional construction administration fees. Also, the City approved the proposal from Yaggy Colby Associates in the amount not to exceed \$165,000 for professional services for the Wastewater Treatment Facility Project.

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, 2013

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Less Funds Not Required To Be Budgeted</u>
RECEIPTS:			
Property tax	\$ 1,231,513	\$ -	\$ -
Tax increment financing	548,881	-	-
Other city tax	270,035	-	-
Licenses and permits	6,356	-	-
Use of money and property	116,946	3,420	-
Intergovernmental	354,932	-	-
Charges for service	346,682	1,303,599	-
Special assessments	26,024	-	-
Miscellaneous	141,000	10,340	-
Total receipts	<u>\$ 3,042,369</u>	<u>\$1,317,359</u>	<u>\$ -</u>
DISBURSEMENTS:			
Public safety	\$ 889,130	\$ -	\$ -
Public works	457,082	-	-
Health and social services	6,269	-	-
Culture and recreation	313,813	-	-
Community and economic development	164,327	-	-
General government	207,396	-	-
Debt service	1,858,014	-	-
Capital projects	347,357	-	-
Business type activities	-	1,500,966	-
Total disbursements	<u>\$ 4,243,388</u>	<u>\$1,500,966</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (1,201,019)	\$ (183,607)	\$ -
Other financing sources, net	<u>2,007,511</u>	<u>492,137</u>	<u>-</u>
Excess of receipts and other financing sources over disbursements and other financing uses	\$ 806,492	\$ 308,530	\$ -
Balances beginning of year	<u>629,201</u>	<u>627,811</u>	<u>-</u>
Balances end of year	<u>\$ 1,435,693</u>	<u>\$ 936,341</u>	<u>\$ -</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>	
\$ 1,231,513	\$ 1,197,929	\$ 1,197,929	\$ 33,584
548,881	533,605	533,605	15,276
270,035	299,440	299,440	(29,405)
6,356	22,450	22,450	(16,094)
120,366	60,500	60,500	59,866
354,932	315,200	315,200	39,732
1,650,281	91,519,586	91,519,586	(89,869,305)
26,024	34,433	34,433	(8,409)
151,340	240,296	240,296	(88,956)
<u>\$ 4,359,728</u>	<u>\$94,223,439</u>	<u>\$ 94,223,439</u>	<u>\$ (89,863,711)</u>
\$ 889,130	\$ 937,050	\$ 1,634,388	\$ 745,258
457,082	486,397	492,397	35,315
6,269	-	-	(6,269)
313,813	318,876	465,469	151,656
164,327	387,578	1,619,026	1,454,699
207,396	219,363	220,363	12,967
1,858,014	327,099	327,099	(1,530,915)
347,357	50,000	75,000	(272,357)
1,500,966	90,919,940	92,409,825	90,908,859
<u>\$ 5,744,354</u>	<u>\$93,646,303</u>	<u>\$ 97,243,567</u>	<u>\$ 91,499,213</u>
\$(1,384,626)	\$ 577,136	\$ (3,020,128)	\$ 1,635,502
<u>2,499,648</u>	<u>-</u>	<u>3,597,264</u>	<u>(1,097,616)</u>
\$ 1,115,022	\$ 577,136	\$ 577,136	\$ 537,886
<u>1,257,012</u>	<u>1,518,475</u>	<u>2,095,611</u>	<u>(838,599)</u>
<u>\$ 2,372,034</u>	<u>\$ 2,095,611</u>	<u>\$ 2,672,747</u>	<u>\$ (300,713)</u>

CITY OF CLARION, IOWA
NOTES TO OTHER INFORMATION - BUDGETARY REPORTING
JUNE 30, 2013

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 \$3,597,264. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the health and social services, debt service and capital projects 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, 2013

Special Revenue

	<u>Road Use Tax</u>	<u>Employee Benefits</u>	<u>Hotel- Motel</u>	<u>Tax Increment Financing Debt</u>	<u>Debt Service</u>
RECEIPTS:					
Property tax	\$ -	\$317,708	\$ -	\$ -	\$ 332,631
Other city tax	-	-	18,906	-	-
Intergovernmental	272,933	-	-	-	-
Special assessments	-	-	-	-	26,024
Miscellaneous	-	8,347	-	-	-
Total receipts	<u>\$272,933</u>	<u>\$326,055</u>	<u>\$18,906</u>	<u>\$ -</u>	<u>\$ 358,655</u>
DISBURSEMENTS:					
Operating:					
Public safety	\$ -	\$190,737	\$ -	\$ -	\$ -
Public works	239,548	27,187	-	-	-
Health and social services	6,269	-	-	-	-
Culture and recreation	-	48,653	-	-	-
Community and economic development	-	-	7,335	52,604	-
General government	-	1,906	-	-	-
Debt service	-	-	-	-	350,920
Capital projects	-	-	-	-	5,955
Total disbursements	<u>\$245,817</u>	<u>\$268,483</u>	<u>\$ 7,335</u>	<u>\$ 52,604</u>	<u>\$ 356,875</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 27,116	\$ 57,572	\$11,571	\$(52,604)	\$ 1,780
Other financing sources:					
Operating transfers in	-	-	-	50,000	-
Change in cash balances	\$ 27,116	\$ 57,572	\$11,571	\$ (2,604)	\$ 1,780
Cash balances beginning of year	<u>35,077</u>	<u>1,748</u>	<u>3,176</u>	<u>36,624</u>	<u>(177,163)</u>
Cash balances end of year	<u>\$ 62,193</u>	<u>\$ 59,320</u>	<u>\$14,747</u>	<u>\$ 34,020</u>	<u>\$(175,383)</u>
Cash Basis Fund Balances					
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted for:					
Urban renewal purposes	-	-	-	34,020	-
Debt service	-	-	-	-	-
Other purposes	62,193	59,320	14,747	-	-
Assigned for capital projects	-	-	-	-	-
Unassigned	-	-	-	-	(175,383)
Total cash basis fund balances	<u>\$ 62,193</u>	<u>\$ 59,320</u>	<u>\$14,747</u>	<u>\$ 34,020</u>	<u>\$(175,383)</u>

See Accompanying Independent Auditor's Report.

Capital Projects						Permanent			
<u>Community Center</u>	<u>Library Building</u>	<u>Aquatic Sinking</u>	<u>Airport</u>	<u>Police/Ambulance Building</u>	<u>Critical Care</u>	<u>Fire Station</u>	<u>Cemetery Perpetual Care</u>	<u>Total</u>	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 650,339	
-	-	-	-	-	-	-	-	18,906	
-	-	-	28,028	-	-	-	-	300,961	
-	-	-	-	-	-	-	-	26,024	
-	41,348	-	-	-	-	-	3,150	52,845	
<u>\$ -</u>	<u>\$ 41,348</u>	<u>\$ -</u>	<u>\$ 28,028</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,150</u>	<u>\$1,049,075</u>	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 190,737	
-	-	-	-	-	-	-	-	266,735	
-	-	-	-	-	-	-	-	6,269	
-	-	-	-	-	-	-	-	48,653	
-	-	-	-	-	-	-	-	59,939	
-	-	-	-	-	-	-	-	1,906	
-	-	-	-	-	-	-	-	350,920	
-	-	-	24,923	-	-	-	-	30,878	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,923</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 956,037</u>	
\$ -	\$ 41,348	\$ -	\$ 3,105	\$ -	\$ -	\$ -	\$ 3,150	\$ 93,038	
-	-	66,537	-	-	-	-	-	116,537	
\$ -	\$ 41,348	\$ 66,537	\$ 3,105	\$ -	\$ -	\$ -	\$ 3,150	\$ 209,575	
75,070	(41,348)	76,307	(104,168)	516	86	75,000	63,731	44,656	
<u>\$ 75,070</u>	<u>\$ -</u>	<u>\$142,844</u>	<u>\$ (101,063)</u>	<u>\$ 516</u>	<u>\$ 86</u>	<u>\$ 75,000</u>	<u>\$ 66,881</u>	<u>\$ 254,231</u>	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 66,881	\$ 66,881	
-	-	-	-	-	-	-	-	34,020	
-	-	142,844	-	-	-	-	-	142,844	
-	-	-	-	-	-	-	-	136,260	
75,070	-	-	-	516	86	75,000	-	150,672	
-	-	-	(101,063)	-	-	-	-	(276,446)	
<u>\$ 75,070</u>	<u>\$ -</u>	<u>\$142,844</u>	<u>\$ (101,063)</u>	<u>\$ 516</u>	<u>\$ 86</u>	<u>\$ 75,000</u>	<u>\$ 66,881</u>	<u>\$ 254,231</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, 2013

	Enterprise			
	Water Bond Reserve	Landfill	Storm Sewer	Total
Operating receipts:				
Charges for service	\$ -	\$ 91,025	\$ 63,938	\$ 154,963
Operating disbursements:				
Business type activities	-	97,660	-	97,660
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ -	\$ (6,635)	\$ 63,938	\$ 57,303
Non-operating receipts (disbursements):				
Miscellaneous	\$ -	\$ 604	\$ -	\$ 604
Capital projects	-	-	(16,267)	(16,267)
Net non-operating receipts (disbursements)	\$ -	\$ 604	\$ (16,267)	\$ (15,663)
Change in cash balances	\$ -	\$ (6,031)	\$ 47,671	\$ 41,640
Cash balances beginning of year	85,000	57,966	51,349	194,315
Cash balances end of year	<u>\$85,000</u>	<u>\$ 51,935</u>	<u>\$ 99,020</u>	<u>\$ 235,955</u>
Cash Basis Fund Balances				
Restricted for debt service	\$85,000	\$ -	\$ -	\$ 85,000
Unrestricted	-	51,935	99,020	150,955
Total cash basis fund balances	<u>\$85,000</u>	<u>\$ 51,935</u>	<u>\$ 99,020</u>	<u>\$ 235,955</u>

See Accompanying Independent Auditor's Report.

CITY OF CLARION, IOWA
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2013

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Bonds and Notes:			
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
Capital Loan Notes	07-17-12	2.45	100,000
Storm Water Bonds	04-01-13	1.50 - 2.50	716,000
Special Assessment Notes:			
Street Improvement	10-01-04	2.80 - 4.85%	\$ 130,000
Urban Renewal Revenue Annual Appropriation Bonds and Notes:			
Aquatic Center	09-01-05	4.45%	\$ 950,000
Library	08-25-08	4.00	950,000
Refunding Bonds	03-14-13	1.35 - 2.50	1,213,000
Revenue Bonds and Notes:			
Water	07-01-76	5.00%	\$1,100,000
Water Capital Loan Notes	04-01-99	4.15 - 5.35	850,000
Water Refunding	02-06-13	1.25	500,000
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>
\$ 655,000	\$ -	\$ 210,000	\$ 445,000	\$ 17,835	\$ -
820,000	-	35,000	785,000	44,288	-
275,000	-	27,000	248,000	9,858	-
730,000	-	110,000	620,000	29,536	-
-	100,000	19,252	80,748	2,017	-
-	716,000	-	716,000	-	-
<u>\$2,480,000</u>	<u>\$ 816,000</u>	<u>\$ 401,252</u>	<u>\$2,894,748</u>	<u>\$ 103,534</u>	<u>\$ -</u>
\$ 45,000	\$ -	\$ 15,000	\$ 30,000	\$ 2,115	\$ -
\$ 430,000	\$ -	\$ 430,000	\$ -	\$ 15,015	\$ -
745,000	-	745,000	-	23,426	-
-	1,213,000	111,000	1,102,000	5,042	-
<u>\$1,175,000</u>	<u>\$1,213,000</u>	<u>\$1,286,000</u>	<u>\$1,102,000</u>	<u>\$ 43,483</u>	<u>\$ -</u>
\$ 285,000	\$ -	\$ 285,000	\$ -	\$ 25,750	\$ -
325,000	-	325,000	-	25,418	-
-	500,000	-	500,000	-	-
<u>\$ 610,000</u>	<u>\$ 500,000</u>	<u>\$ 610,000</u>	<u>\$ 500,000</u>	<u>\$ 51,168</u>	<u>\$ -</u>
\$ 100,000	\$ -	\$ 25,000	\$ 75,000	\$ -	\$ -
<u>\$4,410,000</u>	<u>\$2,529,000</u>	<u>\$2,337,252</u>	<u>\$4,601,748</u>	<u>\$ 200,300</u>	<u>\$ -</u>
<u>\$1,035,488</u>	<u>\$ -</u>	<u>\$ 177,677</u>	<u>\$ 857,811</u>	<u>\$ 62,075</u>	<u>\$ -</u>
<u>\$5,445,488</u>	<u>\$2,529,000</u>	<u>\$2,514,929</u>	<u>\$5,459,559</u>	<u>\$ 262,375</u>	<u>\$ -</u>

CITY OF CLARION, IOWA
BOND AND NOTE MATURITIES
JUNE 30, 2013

G E N E R A L O B L I G A T I O N

Capital Loan Notes

Year Ending June 30,	Issued August 28, 2008		Issued June 1, 2010		Issued August 1, 2009	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2014	3.90%	\$115,000	2.90%	\$28,000	2.70%	\$ 220,000
2015	4.00	120,000	2.90	28,000	3.00	225,000
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		-		-		-
Total		<u>\$620,000</u>		<u>\$ 248,000</u>		<u>\$ 445,000</u>

REVENUE BONDS

SPECIAL ASSESSMENT NOTES

Year Ending June 30	Water	
	Issued February 6, 2013	
	Interest Rates	Amount
2014	1.25%	\$133,000
2015	1.25	130,000
2016	1.25	136,000
2017	1.25	101,000
Total		<u>\$500,000</u>

Year Ending June 30	Street Improvements	
	Issued October 1, 2004	
	Interest Rates	Amount
2014	4.70%	\$ 15,000
2015	4.85	15,000
2016		-
2017		-
2018		-
Total		<u>\$ 30,000</u>

(continued)

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

<u>Issued July 1, 2009</u>		<u>Issued July 17, 2012</u>		<u>G.O. Bonds</u> <u>Issued April 1, 2013</u>		
Interest		Interest		Interest		
<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Total</u>
4.25%	\$ 40,000	2.45%	\$ 19,444	1.50%	\$ 54,000	\$ 476,444
4.25	45,000	2.45	19,931	1.50	55,000	492,931
5.00	45,000	2.45	20,429	1.50	56,000	275,429
5.00	45,000	2.45	20,944	1.50	57,000	277,944
5.00	45,000		-	1.50	58,000	269,000
5.30	50,000		-	1.50	58,000	141,000
5.30	50,000		-	2.50	59,000	143,000
5.30	50,000		-	2.50	61,000	146,000
5.75	55,000		-	2.50	62,000	117,000
5.75	55,000		-	2.50	64,000	119,000
5.75	55,000		-	2.50	65,000	120,000
6.00	60,000		-	2.50	67,000	127,000
6.00	60,000		-		-	60,000
6.00	65,000		-		-	65,000
6.00	65,000		-		-	65,000
	<u>\$ 785,000</u>		<u>\$ 80,748</u>		<u>\$ 716,000</u>	<u>\$2,894,748</u>

CITY OF CLARION, IOWA
BOND AND NOTE MATURITIES
JUNE 30, 2013

<u>Year</u> <u>Ending</u> <u>June 30</u>	<u>Urban Renewal Revenue Annual</u> <u>Appropriation Refunding Bonds</u> <u>Issued March 14, 2013</u>	
	<u>Interest</u>	
	<u>Rates</u>	<u>Amount</u>
2014	1.35%	\$ 114,000
2015	1.35	120,000
2016	1.35	118,000
2017	1.35	124,000
2018	2.50	127,000
2019	2.50	130,000
2020	2.50	137,000
2021	2.50	74,000
2022	2.50	77,000
2023	2.50	81,000
Total		<u>\$1,102,000</u>

<u>Year</u> <u>Ending</u> <u>June 30</u>	<u>Rural Economic Development</u> <u>Loan Agreement</u> <u>Issued November 21, 2005</u>	
	<u>Interest</u>	
	<u>Rates</u>	<u>Amount</u>
2014	-%	\$ 25,000
2015	-	25,000
2016	-	25,000
Total		<u>\$ 75,000</u>

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 TEN YEARS

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Receipts:				
Property tax	\$1,231,513	\$1,091,808	\$1,038,298	\$1,010,658
Tax increment financing	548,881	746,232	489,154	542,614
Other city tax	270,035	285,334	209,764	223,491
Licenses and permits	6,356	10,137	6,321	6,477
Use of money and property	116,946	46,426	47,608	55,711
Intergovernmental	354,932	752,074	491,158	841,055
Charges for service	346,682	464,342	426,436	530,686
Special assessments	26,024	30,624	34,104	44,402
Miscellaneous	141,000	209,135	266,522	304,276
Total	<u>\$3,042,369</u>	<u>\$3,636,112</u>	<u>\$3,009,365</u>	<u>\$3,559,370</u>
Disbursements:				
Operating:				
Public safety	\$ 889,130	\$ 992,386	\$ 961,084	\$ 885,732
Public works	457,082	508,266	394,903	765,537
Health and social services	6,269	7,800	7,500	7,350
Culture and recreation	313,813	397,103	409,326	366,925
Community and economic development	164,327	202,499	228,793	261,555
General government	207,396	316,751	165,646	342,671
Debt Service	1,858,014	736,085	707,687	2,105,164
Capital projects	347,357	474,787	354,934	1,581,002
Total	<u>\$4,243,388</u>	<u>\$3,635,677</u>	<u>\$3,229,873</u>	<u>\$6,315,936</u>

See Accompanying Independent Auditor's Report.

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 959,947	\$ 910,621	\$ 899,589	\$ 922,979	\$ 906,335	\$ 803,611
456,344	388,179	362,842	371,856	376,982	312,304
224,715	255,882	273,021	191,882	265,184	192,088
5,955	7,263	3,618	6,285	4,617	5,507
87,005	89,445	79,990	76,866	66,533	56,817
462,746	311,185	539,300	525,710	479,669	288,939
488,657	488,216	357,334	530,990	382,081	198,059
85,978	182,667	113,334	142,873	257,755	250,396
413,236	236,944	285,292	353,879	177,494	209,806
<u>\$3,184,583</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>
\$1,056,896	\$ 732,866	\$ 678,174	\$ 671,442	\$ 567,306	\$ 536,686
733,152	531,856	418,022	686,333	610,639	1,259,778
7,022	6,750	5,600	5,600	-	-
375,492	336,437	330,504	301,154	299,356	303,255
110,772	112,474	523,301	185,926	70,848	172,148
321,126	285,943	203,553	159,698	195,578	197,765
2,131,873	651,190	613,441	944,070	597,032	581,359
1,295,715	748,517	365,493	1,662,436	538,813	-
<u>\$6,032,048</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>



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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 in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Clarion, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued my report thereon dated October 8, 2013. My report expressed qualified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles because the financial statements did not include the financial transactions of the Iowa Specialty Hospital - Clarion.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Clarion's internal control over financial reporting to determine the audit procedures appropriate in the circumstances 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. Accordingly, I do not express an opinion on the effectiveness of the City of Clarion's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, I identified deficiencies in internal control I consider to be material weaknesses and 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 in internal control described in the accompanying Schedule of Findings as items (A) and (B) 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 (C) and (D) 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, 2013 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

The City of Clarion's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. The City of Clarion's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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 8, 2013

CITY OF CLARION, IOWA
Schedule of Findings
Year Ended June 30, 2013

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) 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.

- (C) 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.

- (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 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.

CITY OF CLARION, IOWA
Schedule of Findings
Year Ended June 30, 2013

Findings Related to the Financial Statements:- continued

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, 2013 exceeded the amounts budgeted in the health and social services, 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.

Also, the City's published budget does not agree with the original budget.

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 the published budget amounts agree with the original 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 - No disbursements were noted that I believe may not meet the requirements of public purpose as defines in an Attorney General's opinion dated April 25, 1979.
- (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.
- (8) Revenue Bonds - No instances of non-compliance with the revenue bond resolutions were noted.

CITY OF CLARION, IOWA
Schedule of Findings
Year Ended June 30, 2013

Other Findings Related to Required Statutory Reporting: - continued

(9) Other Information Required by Bond and Note Resolutions - The following insurance policies were in force at June 30, 2013:

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>
Employers Mutual Casualty	Commercial property	\$10,055,599	April 1, 2014
Employers Mutual Casualty	General liability:		
	General aggregate limit	\$2,000,000	April 1, 2014
	Products/complete operation	2,000,000	April 1, 2014
	Personal and/or advertising		
	Injury limit	1,000,000	April 1, 2014
	Each occurrence limit	1,000,000	April 1, 2014
	Fire damage limit	100,000	April 1, 2014
	Medical expense limit	5,000	April 1, 2014
Employers Mutual Casualty	Inland marine:		
	Contractor's equipment	\$ 526,800	April 1, 2014
	Valuable papers and records	Various	April 1, 2014
Employers Mutual Casualty	Commercial Automobile:		
	Liability	\$1,000,000	April 1, 2014
	Auto medical payments	5,000	April 1, 2014
	Uninsured motorists	50,000	April 1, 2014
	Underinsured motorists	50,000	April 1, 2014
	Comprehensive	Actual cash value	April 1, 2014
		or cost of repairs	
		whichever is less	
		minus deductible as	
		shown on schedule	
		for each covered auto	
	Collision	Actual cash value	April 1, 2014
		or cost of repairs	
		whichever is less	
		minus deductible	
		as shown on schedule	
		for each covered auto	
Employers Mutual Casualty	Commercial Crime -		
	Inside premises	\$ 25,000	April 1, 2014
	Commercial Crime -		
	Outside premises	25,000	April 1, 2014
	Public Employee Dishonesty	175,000	April 1, 2014
	Forgery/Alteration	10,000	April 1, 2014
	Computer/Funds Transfer Fraud	50,000	April 1, 2014
Employers Mutual Casualty	Commercial Umbrella:		
	Occurrence limit	\$5,000,000	April 1, 2014
	Aggregate limit	5,000,000	April 1, 2014
Employers Mutual Casualty	Linebacker:		
	Occurrence limit	\$1,000,000	April 1, 2014
	Aggregate limit	1,000,000	April 1, 2014
US Specialty Insurance Co.	General Liability: Airport		
	Occurrence limit	\$1,000,000	May 8, 2014
	Aggregate limit	1,000,000	
Iowa Municipalities Workers' Compensation Association	Workers' Compensation Self Insurance Retention: Each occurrence	\$1,000,000	July 1, 2013

CITY OF CLARION, IOWA
Schedule of Findings
Year Ended June 30, 2013

Other Findings Related to Required Statutory Reporting: - continued

- (10) Financial Condition - At June 30, 2013, the Special Revenue Tax Increment Financing Fund had a deficit balance of \$48,291, the Debt Service Fund had a deficit balance of \$175,383 and the Capital Projects, Airport Fund had a deficit balance of \$101,063.
- 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.
- (11) 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.
- (12) Sales Tax - Sales tax on sewer services provided to non-residential commercial operations was not uniformly assessed.
- Recommendation - The City should uniformly assess sales tax on sewer services provided to non-residential commercial operations in accordance with section 701-26.72 of the Iowa Department of Revenue Administrative Rules and Regulations.
- Response - This will be corrected.
- Conclusion - Response accepted.
- (13) Urban Renewal Annual Report - The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.