



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

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**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_

May 29, 2012

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Clarinda, Iowa.

The City's receipts totaled \$40,335,346 for the year ended June 30, 2011, a 24.6% decrease from the prior year. The receipts included \$2,095,188 in property tax, \$60,400 from tax increment financing collections, \$21,594,387 from charges for service, \$746,376 from operating grants, contributions and restricted interest, \$591,344 from capital grants, contributions and restricted interest, \$412,585 from local option sales tax, \$49,227 from hotel/motel tax, \$12,109 from unrestricted interest on investments, \$14,105,663 from bond proceeds and \$668,067 from other general receipts.

Disbursements for the year totaled \$58,208,032, a 111% increase over the prior year, and included \$1,498,207 for capital projects, \$1,037,992 for public safety and \$805,352 for culture and recreation. Also, disbursements for business type activities totaled \$52,972,386.

The significant decrease in receipts is due primarily to less bond proceeds received by the Clarinda Regional Health Center. Bond proceeds of \$26,796,150 were received in the prior year as opposed to current year bond proceeds of \$14,105,663. The significant increase in disbursements in the current year is due primarily to the costs associated with construction of the new hospital.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1120-0674-B00F.pdf>.

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**CITY OF CLARINDA**

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

**JUNE 30, 2011**

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**City of Clarinda**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gordon Kokenge	Mayor	Jan 2014
Jeff McCall	Mayor Pro tem	Jan 2012
Gary Alger	Council Member	Jan 2012
Dave Long	Council Member	(Resigned)
Maggie Brown (Appointed)	Council Member	Nov 2011
Billy McComb	Council Member	Jan 2012
Darrel Wichman	Council Member	Jan 2014
Stanley Johnson	Hospital Board of Trustees, Chairman	Jan 2014
Ronald Richardson	Hospital Board of Trustees, Vice Chairman	Jan 2012
Joy Tunnicliff	Hospital Board of Trustees, Secretary/Treasurer	Jan 2012
Mary Etta Hanson	Hospital Board of Trustees	Jan 2014
Dale McAllister	Hospital Board of Trustees	Jan 2014
Christopher Stipe	Hospital Chief Executive Officer	Indefinite
Gary McClarnon	City Manager/Clerk/Treasurer	Indefinite
Ron Bitting	Attorney	Indefinite

**City of Clarinda**



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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Clarinda, Iowa, as of and for the year ended June 30, 2011, 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 Clarinda's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Clarinda Regional Health Center and Affiliate (the Health Center), a major Proprietary Fund, which represents 89% of the cash basis net assets and 90% of the operating receipts of the business type activities of the City. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Health Center, is based solely upon the report of the other auditors.

We conducted our 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 we 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. We believe our audit and the report of the other auditors provide a reasonable basis for our opinions.

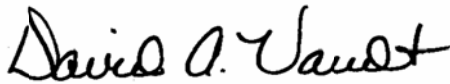
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, based on our audit and the report of the other auditors, 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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Clarinda as of June 30, 2011, 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, we have also issued our report dated April 17, 2012 on our consideration of the City of Clarinda's internal control over financial reporting and our 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 our 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 our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 32 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clarinda's basic financial statements. We 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, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

April 17, 2012



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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The City of Clarinda 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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2011 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities decreased 34.8%, or approximately \$2,332,000, from fiscal year 2010 to fiscal year 2011. Bond proceeds of approximately \$2,515,000 were received in the prior fiscal year.
- Disbursements of the City's governmental activities decreased 6.8%, or approximately \$383,000, in fiscal year 2011 from fiscal year 2010. Debt service disbursements decreased approximately \$1,381,000 and capital projects disbursements increased approximately \$847,000.
- The City's total cash basis net assets decreased 49.5%, or approximately \$17,873,000, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities decreased approximately \$866,000 and the assets of the business type activities decreased approximately \$17,007,000.

### **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.

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

Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **BASIS OF ACCOUNTING**

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

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

### *Government-wide Financial Statement*

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

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

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

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system, storm water system, yard waste system and the regional health center. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

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

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

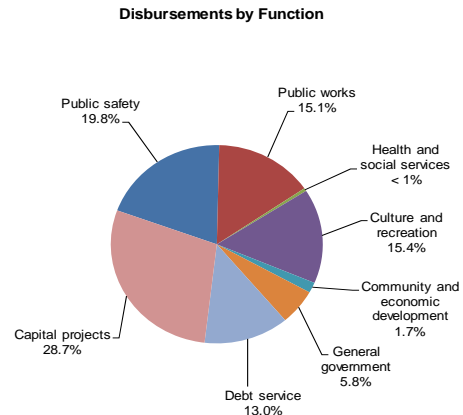
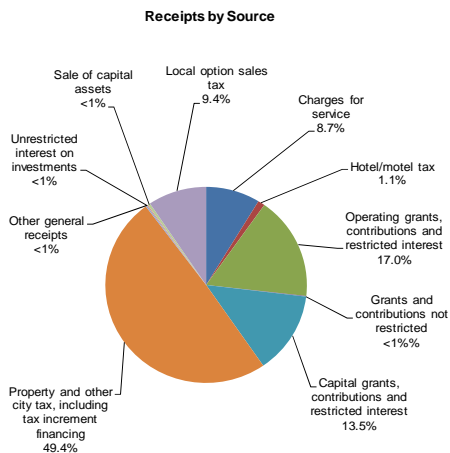
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the Clarinda Regional Health Center and Affiliate, Water and Sewer Funds, considered to be major funds of the City, and the Yard Waste and Storm Water Funds.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$2,327,095 to \$1,461,540. 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	
	Year ended	
	June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service	\$ 381,980	342,933
Operating grants, contributions and restricted interest	743,589	796,818
Capital grants, contributions and restricted interest	591,344	367,115
General receipts:		
Property and other city tax, including tax increment financing	2,155,588	2,192,632
Local option sales tax	412,585	361,513
Hotel/motel tax	49,227	46,450
Grants and contributions not restricted to specific purposes	3,234	17,734
Unrestricted interest on investments	6,698	8,353
Sale of capital assets	18,200	50,292
Bond proceeds	-	2,515,284
Other general receipts	7,646	3,384
<b>Total receipts</b>	<b>4,370,091</b>	<b>6,702,508</b>
Disbursements:		
Public safety	1,037,992	947,949
Public works	792,443	775,374
Health and social services	26,761	26,991
Culture and recreation	805,352	767,050
Community and economic development	89,868	103,110
General government	302,712	282,881
Debt service	682,311	2,063,475
Capital projects	1,498,207	651,342
<b>Total disbursements</b>	<b>5,235,646</b>	<b>5,618,172</b>
<b>Change in cash basis net assets</b>	<b>(865,555)</b>	<b>1,084,336</b>
<b>Cash basis net assets beginning of year</b>	<b>2,327,095</b>	<b>1,242,759</b>
<b>Cash basis net assets end of year</b>	<b>\$ 1,461,540</b>	<b>2,327,095</b>



The City's total receipts for governmental activities decreased 34.8%, or approximately \$2,332,000. The total cost of all programs and services decreased approximately \$383,000, or 6.8%, with no new programs added this year. The decrease in receipts was primarily the result of a prior year bond issuance of approximately \$2.5 million. The decrease in disbursements was mainly due to a reduction in debt service disbursements due to the prior year issuance and refunding of two older issuances, offset by an increase in capital projects disbursements relating to airport improvements.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended	
	June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Clarinda Regional Health Center and Affiliate	\$ 19,133,214	17,791,744
Water	1,276,257	1,231,664
Sewer	716,894	642,234
Yard waste	24,183	24,033
Storm water	61,859	62,015
Operating grants and contributions	2,787	3,668
General receipts:		
Unrestricted interest on investments	5,411	215,217
Bond proceeds	14,105,663	26,796,150
Other general receipts	638,987	50,977
Total receipts	<u>35,965,255</u>	<u>46,817,702</u>
Disbursements:		
Clarinda Regional Health Center and Affiliate	50,951,588	20,031,091
Water	1,234,583	1,221,596
Sewer	648,597	673,131
Yard waste	15,564	12
Storm water	122,054	16,617
Total disbursements	<u>52,972,386</u>	<u>21,942,447</u>
Change in cash basis net assets	(17,007,131)	24,875,255
Cash basis net assets beginning of year	<u>33,753,191</u>	<u>8,877,936</u>
Cash basis net assets end of year	<u>\$ 16,746,060</u>	<u>33,753,191</u>

Total business type activities receipts for the fiscal year were \$35,965,255 compared to \$46,817,702 last year. This decrease was due primarily to less bond proceeds received for the Clarinda Regional Health Center and Affiliate (Health Center) than in the prior year. Total disbursements for the fiscal year increased 141.4% to a total of \$52,972,386. The Health Center disbursements increased approximately \$30,920,000, due primarily to the construction of the new hospital in the current year.

The above changes in receipts and disbursements resulted in a decrease in the cash balance to an ending balance of \$16,746,060.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Clarinda completed the year, its governmental funds reported a combined fund balance of \$1,461,540, a decrease of approximately \$866,000 below last year's total of \$2,327,095. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$104,985 from the prior year to \$68,271. The increase is mainly due to increased property tax receipts.
- The Special Revenue, Road Use Tax Fund cash balance remained constant, decreasing \$905 to \$103,582.
- The Debt Service Fund cash balance also remained constant with an increase of \$1,826 to \$19,349.
- The Capital Projects Fund cash balance decreased \$906,655 to \$341,016 during the fiscal year. The decrease was mainly due to disbursements for the street overlay project funded with proceeds from the prior year bond issuance.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The cash balance of the Enterprise, Clarinda Health Center and Affiliate Fund decreased \$17,073,724 to \$14,918,967. The large decrease is primarily due to the construction of a new hospital. Operating receipts increased 7.5%, or approximately \$1,341,000, due to increased charges for service. Operating disbursements increased 5.1%, or approximately \$1,010,000.
- The Enterprise, Water Fund cash balance increased \$42,012 to \$753,272. Operating receipts increased 3.6%, or approximately \$45,000, and operating disbursements increased 2.8%, or approximately \$20,000.
- The Enterprise, Sewer Fund cash balance increased \$76,157 to \$878,950, due primarily to increased charges for service.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The amendment was approved on May 12, 2011 and resulted in an increase of \$668,000 in receipts and other financing sources due to better than expected local option sales tax and road use tax receipts, additional federal grant receipts for police officers, an anticipated library bond refunding and other donations for culture and recreation programs. Also, disbursements increased \$741,000 due to payments related to the federal grant received, unexpected fire department costs, unplanned purchase of a snow plow and a public works pickup, street sweeper repairs, airport runway light repairs, a scoreboard purchase for the park and an anticipated library bond refunding.

Total actual receipts were \$22,230,858 less than the final budgeted amount, primarily due to actual receipts being less than anticipated for the Clarinda Regional Health Center and Affiliate. Total actual disbursements were \$9,288,768 more than the final budgeted amount, due to greater than budgeted disbursements for business type activities and public works.

## DEBT ADMINISTRATION

At June 30, 2011, the City had \$30,076,330 in bonds and other long-term debt outstanding, compared to \$36,142,131 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2011	2010
General obligation notes/bonds	\$ 2,560,000	3,160,000
Revenue notes/bonds	5,183,000	5,653,000
Clarinda Regional Health Center and Affiliate revenue bonds	22,205,663	27,000,000
Clarinda Regional Health Center and Affiliate capital leases	127,667	329,131
Total	\$ 30,076,330	36,142,131

Debt decreased as a result of issuing 2010 Hospital Revenue Bonds, Series D in the amount of \$14,105,663 at completion of hospital construction to provide permanent financing. The 2010 Hospital Revenue Bonds, Series D issue refunded the 2010 Hospital Revenue Bonds, Series A in the amount of \$18,900,000.

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 \$2,560,000 is significantly below its constitutional debt limit of \$9,361,024.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Clarinda's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the City now stands at 5.4% versus 6.6% a year ago. This compares with the State's unemployment rate of 5.6% and the national rate of 8.5%.

Property tax is expected to increase in fiscal year 2012 as compared to fiscal year 2011 due to the property assessed valuations increasing. The General Fund balance is expected to increase slightly by the close of fiscal year 2012.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$82,000 by the close of fiscal year 2012.

## 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 Gary McClarnon, City Manager, 200 South 15th Street, City of Clarinda, Iowa 51632-2298.

## **Basic Financial Statements**

City of Clarinda

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 1,037,992	10,033	84,338	-
Public works	792,443	27,771	546,576	-
Health and social services	26,761	-	-	-
Culture and recreation	805,352	332,110	46,964	-
Community and economic development	89,868	-	-	-
General government	302,712	12,066	65,711	-
Debt service	682,311	-	-	-
Capital projects	1,498,207	-	-	591,344
Total governmental activities	5,235,646	381,980	743,589	591,344
Business type activities:				
Clarinda Regional Health Center and Affiliate	50,951,588	19,133,214	-	-
Water	1,234,583	1,276,257	-	-
Sewer	648,597	716,894	2,787	-
Yard waste	15,564	24,183	-	-
Storm water	122,054	61,859	-	-
Total business type activities	52,972,386	21,212,407	2,787	-
Total primary government	\$ 58,208,032	21,594,387	746,376	591,344
<b>Component Unit</b>				
Clarinda Economic Development Corporation	\$ 71,274	-	27,220	-
<b>General Receipts</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Bond proceeds				
Sale of assets				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Nonexpendable:				
Permanent funds				
Expendable:				
Streets				
Debt service				
Bond agreements and other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.



Net (Disbursements) Receipts and Changes in Cash Basis Net Assets				
Primary Government				
Governmental Activities	Business Type Activities	Total	Component Unit	
(943,621)	-	(943,621)	-	
(218,096)	-	(218,096)	-	
(26,761)	-	(26,761)	-	
(426,278)	-	(426,278)	-	
(89,868)	-	(89,868)	-	
(224,935)	-	(224,935)	-	
(682,311)	-	(682,311)	-	
(906,863)	-	(906,863)	-	
(3,518,733)	-	(3,518,733)	-	
-	(31,818,374)	(31,818,374)	-	
-	41,674	41,674	-	
-	71,084	71,084	-	
-	8,619	8,619	-	
-	(60,195)	(60,195)	-	
-	(31,757,192)	(31,757,192)	-	
(3,518,733)	(31,757,192)	(35,275,925)	-	
			(44,054)	
1,645,901	-	1,645,901	-	
449,287	-	449,287	-	
60,400	-	60,400	-	
412,585	-	412,585	-	
49,227	-	49,227	-	
3,234	624,737	627,971	30,000	
6,698	5,411	12,109	1,924	
-	14,105,663	14,105,663	-	
18,200	14,250	32,450	-	
7,646	-	7,646	14,775	
2,653,178	14,750,061	17,403,239	2,645	
(865,555)	(17,007,131)	(17,872,686)	2,645	
2,327,095	33,753,191	36,080,286	84,294	
1,461,540	16,746,060	18,207,600	86,939	
\$ 296,717	-	296,717	-	
416,517	-	416,517	-	
19,349	649,145	668,494	-	
632,605	8,068,720	8,701,325	86,939	
96,352	8,028,195	8,124,547	-	
\$ 1,461,540	16,746,060	18,207,600	86,939	

City of Clarinda

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2011

	General	Special Revenue Road Use Tax	Debt Service
<b>Receipts:</b>			
Property tax	\$ 1,128,826	-	438,402
Tax increment financing	-	-	-
Other city tax	82,908	-	10,885
Licenses and permits	10,165	-	-
Use of money and property	8,470	-	-
Intergovernmental	55,923	514,690	-
Charges for service	346,033	-	-
Miscellaneous	111,405	-	-
Total receipts	1,743,730	514,690	449,287
<b>Disbursements:</b>			
Operating:			
Public safety	736,562	-	-
Public works	32,808	567,516	-
Health and social services	26,761	-	-
Culture and recreation	700,512	-	-
Community and economic development	43,752	-	-
General government	300,608	-	-
Debt service	-	-	682,311
Capital projects	-	-	-
Total disbursements	1,841,003	567,516	682,311
Excess (deficiency) of receipts over (under) disbursements	(97,273)	(52,826)	(233,024)
<b>Other financing sources (uses):</b>			
Sale of capital assets	8,200	-	-
Operating transfers in	241,308	56,881	234,850
Operating transfers out	(47,250)	(4,960)	-
Total other financing sources (uses)	202,258	51,921	234,850
Net change in cash balances	104,985	(905)	1,826
Cash balances beginning of year	(36,714)	104,487	17,523
Cash balances end of year	\$ 68,271	103,582	19,349
<b>Cash Basis Fund Balances</b>			
Nonspendable:			
Cemetery perpetual care	\$ -	-	-
Library	-	-	-
Restricted for:			
Public streets	-	103,582	-
Debt service	-	-	19,349
Other purposes	-	-	-
Assigned for capital projects	-	-	-
Unassigned	68,271	-	-
Total cash basis fund balances	\$ 68,271	103,582	19,349

See notes to financial statements.

Capital Projects	Nonmajor	Total
-	476,698	2,043,926
-	60,400	60,400
-	424,589	518,382
-	-	10,165
-	2,135	10,605
581,862	30,239	1,182,714
-	-	346,033
9,482	58,779	179,666
591,344	1,052,840	4,351,891

-	301,430	1,037,992
-	192,119	792,443
-	-	26,761
-	104,840	805,352
-	46,116	89,868
-	2,104	302,712
-	-	682,311
1,498,207	-	1,498,207
1,498,207	646,609	5,235,646
(906,863)	406,231	(883,755)

10,000	-	18,200
129,767	4,960	667,766
(139,559)	(475,997)	(667,766)
208	(471,037)	18,200
(906,655)	(64,806)	(865,555)
1,247,671	994,128	2,327,095
341,016	929,322	1,461,540

-	60,666	60,666
-	236,051	236,051
312,935	-	416,517
-	-	19,349
-	632,605	632,605
28,081	-	28,081
-	-	68,271
341,016	929,322	1,461,540

**Exhibit C**

## City of Clarinda

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2011

	Enterprise				Total
	Clarinda Regional Health Center and Affiliate	Water	Sewer	Nonmajor	
Operating receipts:					
Charges for service	\$ 19,041,909	1,276,257	716,894	84,734	21,119,794
Miscellaneous	91,305	-	2,787	1,308	95,400
Total operating receipts	19,133,214	1,276,257	719,681	86,042	21,215,194
Operating disbursements:					
Business type activities	18,119,597	745,785	428,875	38,975	19,333,232
Excess of operating receipts over operating disbursements	1,013,617	530,472	290,806	47,067	1,881,962
Non-operating receipts (disbursements):					
Unrestricted contributions	624,737	-	-	-	624,737
Interest on investments	-	338	5,073	-	5,411
Bond proceeds	14,105,663	-	-	-	14,105,663
Sale of capital assets	14,250	-	-	-	14,250
Loss on investments	(18,507)	-	-	-	(18,507)
Acquisition of capital and other assets	(12,866,556)	(46,738)	(6,789)	(98,643)	(13,018,726)
Debt service	(19,946,928)	(442,060)	(212,933)	-	(20,601,921)
Net non-operating receipts (disbursements)	(18,087,341)	(488,460)	(214,649)	(98,643)	(18,889,093)
Net change in cash balances	(17,073,724)	42,012	76,157	(51,576)	(17,007,131)
Cash balances beginning of year	31,992,691	711,260	802,793	246,447	33,753,191
Cash balances end of year	\$ 14,918,967	753,272	878,950	194,871	16,746,060
<b>Cash Basis Fund Balances</b>					
Restricted for:					
Debt service	\$ 649,145	-	-	-	649,145
Bond agreements and other purposes	8,068,720	-	-	-	8,068,720
Unrestricted	6,201,102	753,272	878,950	194,871	8,028,195
Total cash basis fund balances	\$ 14,918,967	753,272	878,950	194,871	16,746,060

See notes to financial statements.

City of Clarinda

Notes to Financial Statements

June 30, 2011

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

The City of Clarinda is a political subdivision of the State of Iowa located in Page County. It was first incorporated in 1853 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Clarinda has included all funds, organizations, agencies, boards, commissions and authorities. 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.

Based on the foregoing criteria, the Clarinda Regional Health Center and Affiliate (the Health Center) is considered to be part of the primary government and, therefore, the financial information for the Health Center is included in the City's financial statements. The financial activities of the Health Center are reported as an Enterprise Fund. Certain disclosures about the Health Center are not included because the Health Center has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the Clarinda Regional Health Center and Affiliate.

These financial statements present the City of Clarinda (the primary government), the Clarinda Economic Development Corporation, the Clarinda Library Foundation and Clarinda Fire and Rescue (component units). These component units, discussed below, are included in the City's reporting entity because of the significance of their operational or financial relationship with the City. These nonprofit organizations were formed under Chapter 504A of the Code of Iowa.

Discretely Presented Component Unit

The Clarinda Economic Development Corporation (CEDC) is presented in a separate column to emphasize it is legally separate from the City, but is financially accountable to the City or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or

incomplete. The CEDC is governed by a nine-member board. Two members are elected from the City Council of Clarinda. The CEDC is dependent on City funding to maintain its existence.

#### Blended Component Units

The Clarinda Library Foundation (Foundation) and Clarinda Fire and Rescue (Fire and Rescue) are legally separate from the City, but are so intertwined with the City they are, in substance, part of the City. The Foundation and Fire and Rescue collect donations which are to be used to purchase items not included in the City's budget and to make donations to the City to help finance a new library and fire equipment. The financial transactions are reported as Special Revenue Funds of the City.

#### 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 Page County Assessor's Conference Board, Page County Emergency Management Commission and Page County Joint E911 Service Board.

#### Related Organization

The City Council is also responsible for appointing the members of the Low Rent Housing Board, but the City's accountability for this organization does not extend beyond making the appointments.

### 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.

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 Funds.

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 funds and enterprise funds are aggregated and reported as nonmajor governmental funds and nonmajor 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.

The Special Revenue, Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those financed through Enterprise Funds.

The City reports the following major proprietary funds:

The Enterprise, Clarinda Regional Health Center and Affiliate Fund is used to account for the operation and maintenance of the Clarinda Regional Health Center and Affiliate.

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

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

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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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.

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 Required Supplementary Information. Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public works and business type activities functions.

### **(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2011 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.



The Clarinda Regional Health Center and Affiliate (Health Center) includes the Clarinda Medical Foundation. Disclosures about the Clarinda Medical Foundation's investments are included in the Health Center's financial statements.

**(3) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation notes and bonds, sewer refunding revenue notes and water revenue bonds are as follows:

Year Ending June 30,	General Obligation		Water		Total	
	Notes/Bonds		Revenue Bonds			
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 605,000	70,575	274,000	155,490	879,000	226,065
2013	350,000	61,645	282,000	147,270	632,000	208,915
2014	355,000	53,870	292,000	138,810	647,000	192,680
2015	370,000	44,923	301,000	130,050	671,000	174,973
2016	200,000	34,292	311,000	121,020	511,000	155,312
2017-2021	680,000	62,010	1,712,000	459,030	2,392,000	521,040
2020-2026	-	-	2,011,000	184,830	2,011,000	184,830
Total	\$ 2,560,000	327,315	5,183,000	1,336,500	7,743,000	1,663,815

Water Revenue Bonds

On October 19, 2005, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$6,500,000 of drinking water revenue bonds with interest at 3% per annum. The agreement requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Sections 384.24A and 384.83 of the Code of Iowa for the purpose of paying the cost of construction of a drinking water treatment facility. Upon request, the Trustee will reimburse the City for costs as they are incurred. At June 30, 2011, the City had drawn a total of \$6,409,000, including a \$65,000 initiation fee, with \$91,000 of undrawn proceeds from the \$6,500,000 authorized. During fiscal year 2011, the City made a principal payment of \$265,000 and an interest payment of \$163,440, leaving a principal balance of \$5,183,000 at June 30, 2011.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay the \$6,409,000 of water revenue bonds. The bonds are payable solely from water customer net receipts. Annual principal and interest payments on the bonds are generally expected to require less than 85% of net receipts. The total principal and interest remaining to be paid on the bonds is \$6,519,500. For the current year, principal and interest paid and total customer net receipts were \$428,440 and \$530,472, respectively.

The resolution providing for the issuance of the water revenue bonds includes the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) The rents, rates and other charges shall be at least sufficient to meet the operation and maintenance expenses of such water system and to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bonds.

Clarinda Regional Health Center and Affiliate (the Health Center) Debt

A schedule of long-term debt obligations at June 30, 2011 for the Health Center is as follows:

	<u>Amount</u>
2010 Hospital Revenue Bonds, Series B	\$ 6,355,000
2010 Hospital Revenue Bonds, Series C	1,745,000
2010 Hospital Revenue Bonds, Series D	14,105,663
Capital leases	127,667
Total	<u>\$ 22,333,330</u>

The Health Center revenue bonds, 2010 Series A, outstanding balance at July 1, 2010 of \$18,900,000 required semi-annual payments of interest only through June 2012, at an interest rate of 2.00%. The United States Department of Agriculture – Rural Development (USDA – RD) made a conditional commitment to lend funds to the Health Center to refund the Series A notes through the purchase of revenue bonds (Building America Bonds – Direct Payment) to be issued upon completion of the project, in order to provide permanent financing. Hospital Revenue Bonds 2010, Series D below discusses the terms of the USDA - RD revenue bonds issued in the current year to refund the 2010 Series A Bonds.

The Health Center revenue bonds, 2010 Series B, require semi-annual payments of interest only through June 2012. The interest rate adjusts annually, ranging from 2.00% per annum as of June 30, 2010 to 6.15% per annum as of June 30, 2030. Semi-annual principal and interest payments commence June 2012 and continue through June 2030.

The Health Center revenue bonds, 2010 Series C, require semi-annual payments of interest only through June 2030. Semi-annual payments of principal and interest commence December 2030 and continue through June 2033. The interest rate is fixed at 6.125% per annum.

The Health Center revenue bonds, 2010 Series D (Building America Bonds – Direct Payment) require semi-annual payments of principal and interest through December 2050. Semi-annual payments of interest will continue through December 2012. At this time, semi-annual principal and interest payments will commence and continue through December 2050. The interest rate is fixed at 3.75% per annum. The Series D bonds are being drawn down as necessary to fund the current payments due on construction of the new facility up to the maximum amount of \$18,900,000. The outstanding amount at June 30, 2011 is \$14,105,663.

The Health Center leases certain equipment under capital lease arrangements. Leases require monthly payments of principal and interest at rates ranging from 4.52% to 8.30% per annum. Leases are secured by equipment.

Future payments of principal and interest on the long-term debt obligations if the remaining \$4,794,337 of Series D Bond proceeds are drawn are approximately as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 300,638	1,010,662	1,311,300
2013	503,348	1,003,788	1,507,136
2014	464,619	989,947	1,454,566
2015	483,229	975,635	1,458,864
2016	497,163	959,526	1,456,689
2017-2021	2,816,993	4,505,540	7,322,533
2022-2026	3,496,293	3,870,010	7,366,303
2027-2031	4,447,040	2,987,736	7,434,776
2032-2036	3,595,642	1,944,516	5,540,158
2037-2041	2,885,810	1,439,808	4,325,618
2042-2046	3,469,033	963,916	4,432,949
2047-2051	4,167,859	391,847	4,559,706
Total	\$ 27,127,667	21,042,931	48,170,598

**(4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% 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, 2011, 2010 and 2009 were \$93,186, \$84,956 and \$79,705, respectively, equal to the required contributions for each year. The Health Center's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were approximately \$596,000, \$541,000 and \$483,000, respectively, equal to the required contributions for each year.

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

City

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 32 active and 2 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 United Healthcare. 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 \$451 for single coverage and \$1,217 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$398,381 and plan members eligible for benefits contributed \$45,542 to the plan.

Health Center

Plan Description - The Health Center sponsors a post-retirement medical plan which provides post-termination medical insurance coverage for participants and the participant’s family through age 65. The employees eligible under this policy are all employees who terminate employment at or after age 55 with at least 3 years of service. Prior to the participants reaching age 65, the coverage shall be insured coverage providing a level of benefits reasonably comparable to the standard medical coverage the Health Center provides to all full-time employees. The plan coverage terminates upon the participant reaching Medicare eligibility (age 65).

Funding Policy - The Health Center pays for all of active employees’ coverage. The amount depends on whether single or family coverage is elected. Upon retirement, the retired participant continuing their coverage pays the premium, including any increase in single premium after retirement. The required contribution is based on projected pay-as-you-go financing requirements. The Health Center contributed \$41,000 to the plan during the year ended June 30, 2011.

Details of the OPEB plan are available in the Health Center’s audit report for the year ended June 30, 2011. The report may be obtained by writing to the Clarinda Regional Health Center, 823 South 17<sup>th</sup> Street, Clarinda, Iowa 51632.

**(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, 2011, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$108,000
Compensatory time	<u>19,000</u>
Total	<u>\$127,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

The Health Center’s liability for earned compensated absences payable to employees is approximately \$556,300 at June 30, 2011.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Local Option Sales Tax	\$ 241,308
Special Revenue: Road Use Tax	Capital Projects	56,881
Debt Service	Special Revenue: Local Option Sales Tax Tax Increment Financing Capital Projects	88,760 63,412 82,678
		234,850
Capital Projects	General Special Revenue: Local Option Sales Tax	47,250 82,517
		129,767
Special Revenue: I-Jobs	Special Revenue: Road Use Tax	4,960
Total		\$ 667,766

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

**(8) Development and Rebate Agreement**

The City entered into a development and rebate agreement during the year ended June 30, 2004 to assist in an urban renewal project. The City agreed to rebate incremental property tax paid by the developer in exchange for public improvement infrastructure constructed by the developer as set forth in the urban renewal plan.

In accordance with the fiscal year 2004 development and rebate agreement, the incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which property tax on the completed value of the improvement is first paid. The total amount rebated each year shall represent 100% of the incremental property tax received by the City, not to exceed \$320,000. During the year ended June 30, 2011, the City paid the developer \$46,116 from the incremental property tax received. The total cumulative amount rebated since inception of the agreement is \$229,688.

No bonds or notes were issued for this project.

**(9) Risk Management**

City

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2011 were \$52,994.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation, property and employee blanket bond. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## Health Center

The Health Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There has been no significant reduction in insurance coverage from the previous year in any of the Health Center's policies. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

The Health Center also has insurance coverage to provide protection for professional liability losses on a claims made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be insured.

The Health Center has entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses on individual claims and to provide claims processing and other administrative duties. Claims are accrued as incurred. The amounts charged to expense include administrative fees, stop-loss insurance premiums, claims paid and accruals for claims incurred but not paid at the end of the year. Total expenses of \$984,288 were recognized under the plan by the Health Center for the year ended June 30, 2011.

### **(10) Subsequent Events**

In July 2011, the City issued \$1,650,000 of general obligation corporate purpose and refunding bonds for street, water system, sanitary system and storm sewer improvements, acquiring equipment for the street department and to refund the callable 2003 library notes.

In September 2011, the City issued \$1,000,000 of general obligation corporate purpose bonds for street improvement projects, to acquire a fire truck and to construct improvements to the municipal recreation center.

### **(11) Accounting Change**

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The Special Revenue, Emergency Fund was reclassified and is now included in the General Fund. There was no effect on the beginning balances as a result of this accounting change because the Special Revenue, Emergency Fund did not have a balance at June 30, 2010.

**City of Clarinda**



**Required Supplementary Information**

City of Clarinda

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances –  
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
<b>Receipts:</b>			
Property tax	\$ 2,043,926	-	-
Tax increment financing	60,400	-	-
Other city tax	518,382	-	-
Licenses and permits	10,165	-	-
Use of money and property	10,605	5,411	673
Intergovernmental	1,182,714	-	-
Charges for service	346,033	21,119,794	-
Miscellaneous	179,666	734,387	50,466
Total receipts	<u>4,351,891</u>	<u>21,859,592</u>	<u>51,139</u>
<b>Disbursements:</b>			
Public safety	1,037,992	-	42,669
Public works	792,443	-	-
Health and social services	26,761	-	-
Culture and recreation	805,352	-	9,959
Community and economic development	89,868	-	-
General government	302,712	-	-
Debt service	682,311	-	-
Capital projects	1,498,207	-	-
Business type activities	-	52,972,386	-
Total disbursements	<u>5,235,646</u>	<u>52,972,386</u>	<u>52,628</u>
Excess (deficiency) of receipts over (under) disbursements	(883,755)	(31,112,794)	(1,489)
Other financing sources, net	18,200	14,105,663	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(865,555)	(17,007,131)	(1,489)
Balances beginning of year	2,327,095	33,753,191	112,375
Balances end of year	<u>\$ 1,461,540</u>	<u>16,746,060</u>	<u>110,886</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
2,043,926	2,030,731	2,030,731	13,195
60,400	50,870	50,870	9,530
518,382	469,301	519,301	(919)
10,165	8,300	8,300	1,865
15,343	23,500	23,500	(8,157)
1,182,714	1,093,000	1,125,000	57,714
21,465,827	44,529,000	44,589,000	(23,123,173)
863,587	44,500	44,500	819,087
26,160,344	48,249,202	48,391,202	(22,230,858)
995,323	971,695	1,011,695	16,372
792,443	640,367	750,367	(42,076)
26,761	34,000	34,000	7,239
795,393	736,872	796,872	1,479
89,868	88,000	93,000	3,132
302,712	303,075	303,075	363
682,311	696,968	1,222,968	540,657
1,498,207	2,400,000	2,400,000	901,793
52,972,386	42,254,659	42,254,659	(10,717,727)
58,155,404	48,125,636	48,866,636	(9,288,768)
(31,995,060)	123,566	(475,434)	(31,519,626)
14,123,863	700,000	1,226,000	12,897,863
(17,871,197)	823,566	750,566	(18,621,763)
35,967,911	11,415,459	11,415,459	24,552,452
18,096,714	12,239,025	12,166,025	5,930,689

City of Clarinda

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component units. 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 Fund, the Permanent Funds 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 \$741,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public works and business type activities functions.

**Other Supplementary Information**

City of Clarinda

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue			
	Local Option Sales Tax	Employee Benefits	Tax Increment Financing	I-Jobs
<b>Receipts:</b>				
Property tax	\$ -	476,698	-	-
Tax increment financing	-	-	60,400	-
Other city tax	412,585	12,004	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	30,239
Miscellaneous	-	-	-	-
Total receipts	412,585	488,702	60,400	30,239
<b>Disbursements:</b>				
Operating:				
Public safety	-	258,761	-	-
Public works	-	132,068	-	60,051
Culture and recreation	-	93,952	-	-
Community and economic development	-	-	46,116	-
General government	-	2,104	-	-
Total disbursements	-	486,885	46,116	60,051
Excess (deficiency) of receipts over (under) disbursements	412,585	1,817	14,284	(29,812)
<b>Other financing sources (uses):</b>				
Operating transfers in	-	-	-	4,960
Operating transfers out	(412,585)	-	(63,412)	-
Total other financing sources (uses)	(412,585)	-	(63,412)	4,960
Net change in cash balances	-	1,817	(49,128)	(24,852)
Cash balances beginning of year	-	146,740	408,110	24,852
Cash balances end of year	\$ -	148,557	358,982	-
<b>Cash Basis Fund Balances</b>				
Nonspendable:				
Cemetery perpetual care	\$ -	-	-	-
Library	-	-	-	-
Restricted for other purposes	-	148,557	358,982	-
Total cash basis fund balances	\$ -	148,557	358,982	-

See accompanying independent auditor's report.

						Permanent	
Library Memorial	Clarinda Library Foundation	Clarinda Fire and Rescue	Cemetery Perpetual Care	Library Endowment	Library Bequest	Total	
-	-	-	-	-	-	-	476,698
-	-	-	-	-	-	-	60,400
-	-	-	-	-	-	-	424,589
1,462	349	324	-	-	-	-	2,135
-	-	-	-	-	-	-	30,239
-	11,830	38,636	-	8,313	-	-	58,779
1,462	12,179	38,960	-	8,313	-	-	1,052,840
-	-	42,669	-	-	-	-	301,430
-	-	-	-	-	-	-	192,119
929	9,959	-	-	-	-	-	104,840
-	-	-	-	-	-	-	46,116
-	-	-	-	-	-	-	2,104
929	9,959	42,669	-	-	-	-	646,609
533	2,220	(3,709)	-	8,313	-	-	406,231
-	-	-	-	-	-	-	4,960
-	-	-	-	-	-	-	(475,997)
-	-	-	-	-	-	-	(471,037)
533	2,220	(3,709)	-	8,313	-	-	(64,806)
13,647	61,038	51,337	60,666	127,738	100,000	-	994,128
14,180	63,258	47,628	60,666	136,051	100,000	-	929,322
-	-	-	60,666	-	-	-	60,666
-	-	-	-	136,051	100,000	-	236,051
14,180	63,258	47,628	-	-	-	-	632,605
14,180	63,258	47,628	60,666	136,051	100,000	-	929,322

**City of Clarinda**



## City of Clarinda

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2011

	Enterprise		
	Yard Waste	Storm Water	Total
Operating receipts:			
Charges for service	\$ 23,793	60,941	84,734
Miscellaneous	390	918	1,308
Total operating receipts	24,183	61,859	86,042
Operating disbursements:			
Business type activities	1,323	37,652	38,975
Excess of operating receipts over disbursements	22,860	24,207	47,067
Non-operating disbursements:			
Acquisition of capital and other assets	(14,241)	(84,402)	(98,643)
Excess (deficiency) of receipts over (under) disbursements	8,619	(60,195)	(51,576)
Cash balances beginning of year	24,021	222,426	246,447
Cash balances end of year	\$ 32,640	162,231	194,871
<b>Cash Basis Fund Balances</b>			
Unrestricted	\$ 32,640	162,231	194,871

See accompanying independent auditor's report.

City of Clarinda  
Statement of Indebtedness  
June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
City:			
General obligation notes/bonds:			
Library	Aug 1, 2003	1.50-4.40%	\$ 1,000,000
Corporate purpose bonds	Aug 1, 2009	1.75-4.00	1,100,000
Refunding bonds	Mar 25, 2010	0.80-2.20	1,470,000
Total			
Revenue notes/bonds:			
Sewer refunding	Apr 1, 2003	2.35-3.65%	\$ 945,000
Water	Oct 19, 2005 *	3.00	6,500,000
Total			
Clarinda Regional Health Center and Affiliate:			
2010 Hospital Revenue Bonds, Series A			
2010 Hospital Revenue Bonds, Series B			
2010 Hospital Revenue Bonds, Series C			
2010 Hospital Revenue Bonds, Series D			
Capital leases:			
Equipment			
Total			

\* The agreement also requires the City to annually pay a .25% servicing fee on the outstanding balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
590,000	-	65,000	525,000	23,310
1,100,000	-	60,000	1,040,000	35,975
1,470,000	-	475,000	995,000	21,676
<b>\$ 3,160,000</b>	-	600,000	2,560,000	80,961
205,000	-	205,000	-	7,483
5,448,000	-	265,000	5,183,000	163,440
<b>\$ 5,653,000</b>	-	470,000	5,183,000	170,923
\$ 18,900,000	-	18,900,000	-	156,608
6,355,000	-	-	6,355,000	315,967
1,745,000	-	-	1,745,000	102,024
-	14,105,663	-	14,105,663	140,934
329,131	-	201,464	127,667	10,931
<b>\$ 27,329,131</b>	14,105,663	19,101,464	22,333,330	726,464

City of Clarinda  
Bond and Note Maturities  
June 30, 2011

General Obligation Notes/Bonds							
Year Ending June 30,	Library		Corporate Purpose Bonds		Refunding Bonds		Total
	Interest Rates	Issued Aug 1, 2003 Amount	Interest Rates	Issued Aug 1, 2009 Amount	Interest Rates	Issued Mar 25, 2010 Amount	
2012	3.55%	\$ 65,000	2.15%	\$ 65,000	1.10%	\$ 475,000	605,000
2013	3.70	70,000	2.55	110,000	1.40	170,000	350,000
2014	3.85	70,000	2.90	110,000	1.75	175,000	355,000
2015	4.00	75,000	3.15	120,000	2.20	175,000	370,000
2016	4.20	80,000	3.40	120,000			200,000
2017	4.30	80,000	3.60	120,000		-	200,000
2018	4.40	85,000	3.75	125,000		-	210,000
2019		-	3.90	135,000		-	135,000
2020		-	4.00	135,000		-	135,000
Total		<u>\$ 525,000</u>		<u>\$ 1,040,000</u>		<u>\$ 995,000</u>	<u>2,560,000</u>

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Revenue Bonds		
Water		
Year	Issued October 19, 2005	
Ending	Interest	
June 30,	Rates	Amount
2012	3.00%	\$ 274,000
2013	3.00	282,000
2014	3.00	292,000
2015	3.00	301,000
2016	3.00	311,000
2017	3.00	321,000
2018	3.00	331,000
2019	3.00	342,000
2020	3.00	353,000
2021	3.00	365,000
2022	3.00	377,000
2023	3.00	389,000
2024	3.00	402,000
2025	3.00	415,000
2026	3.00	428,000
Total		<u>\$ 5,183,000</u>

City of Clarinda

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Nine Years

	2011	2010	2009
<b>Receipts:</b>			
Property tax	\$ 2,043,926	1,894,638	1,850,058
Tax increment financing	60,400	241,728	206,498
Other city tax	518,382	466,879	479,791
Licenses and permits	10,165	9,281	10,428
Use of money and property	10,605	26,583	21,951
Intergovernmental	1,182,714	873,209	628,433
Charges for service	346,033	312,698	322,411
Miscellaneous	179,666	311,916	148,436
<b>Total</b>	<b>\$ 4,351,891</b>	<b>4,136,932</b>	<b>3,668,006</b>
<b>Disbursements:</b>			
<b>Operating:</b>			
Public safety	\$ 1,037,992	947,949	921,107
Public works	792,443	775,374	580,188
Health and social services	26,761	26,991	21,175
Culture and recreation	805,352	767,050	763,169
Community and economic development	89,868	103,110	87,326
General government	302,712	282,881	252,127
Debt service	682,311	2,063,475	592,485
Capital projects	1,498,207	651,342	438,878
<b>Total</b>	<b>\$ 5,235,646</b>	<b>5,618,172</b>	<b>3,656,455</b>

See accompanying independent auditor's report.

2008	2007	2006	2005	2004	2003
1,932,527	1,828,565	1,726,674	1,586,760	1,475,004	1,467,847
124,820	106,557	62,759	11,685	-	-
465,471	469,272	451,297	395,003	403,456	358,398
12,081	9,712	9,938	9,512	8,948	9,187
36,918	31,352	30,480	62,875	44,514	31,929
710,728	1,740,055	1,592,450	573,785	726,244	575,731
306,908	286,852	275,526	264,716	256,303	311,380
360,480	212,719	167,729	934,953	710,787	483,361
3,949,933	4,685,084	4,316,853	3,839,289	3,625,256	3,237,833
844,163	847,801	977,718	940,357	921,658	968,317
594,886	542,108	450,075	441,016	467,568	490,103
19,298	27,928	38,293	33,371	3,500	-
722,635	742,258	946,885	843,964	842,821	999,046
120,168	96,746	115,454	136,940	160,694	134,748
244,413	287,921	349,429	386,249	328,775	94,155
678,285	676,808	673,165	2,230,532	1,870,911	559,977
434,650	1,247,898	1,372,219	1,384,965	1,828,052	345,739
3,658,498	4,469,468	4,923,238	6,397,394	6,423,979	3,592,085

**Schedule 6**

## City of Clarinda

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Justice:			
Office of Community Oriented Policing Services (COPS):			
Public Safety Partnership and Community Policing Grants	16.710	2010UMWX0094	\$ 9,922
Department of Transportation:			
Office of Federal Aviation Administration:			
Airport Improvement Program	20.106	3-19-0017-10	511,039
Airport Improvement Program	20.106	3-19-0017-08	15,537
			<u>526,576</u>
Total direct			536,498
Indirect:			
National Highway Traffic Safety Administration:			
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	PAP 11-03, Task 0435	4,500
Total			<u>\$ 540,998</u>

**Basis of Presentation** – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Clarinda and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.





**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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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:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Clarinda, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated April 17, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. Our report includes a reference to other auditors. We conducted our 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. Other auditors audited the financial statements of the Clarinda Regional Health Center and Affiliate (the Health Center), a major Proprietary Fund, as described in our report on the City of Clarinda's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters which are reported on separately by those other auditors.

Internal Control Over Financial Reporting

Management of the City of Clarinda is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Clarinda's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Clarinda's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Clarinda's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items II-A-11 through II-C-11, we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a 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.

## Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our 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.

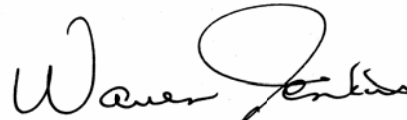
The City of Clarinda's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Clarinda's responses and, accordingly, we express no opinion 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 Clarinda and other parties to whom the City of Clarinda may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

April 17, 2012

**Independent Auditor's Report on Compliance  
with Requirements That Could Have a Direct and Material Effect  
on Each Major Program and on Internal Control over Compliance in Accordance  
with OMB Circular A-133**

**City of Clarinda**



OFFICE OF AUDITOR OF STATE  
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David A. Vaudt, CPA  
Auditor of State

Independent Auditor's Report on Compliance  
with Requirements That Could Have a Direct and Material Effect  
on Each Major Program and on Internal Control over Compliance in Accordance  
with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the City of Clarinda, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Clarinda's major federal program for the year ended June 30, 2011. The City of Clarinda's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Clarinda's management. Our responsibility is to express an opinion on the City of Clarinda's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Clarinda's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Clarinda's compliance with those requirements.

In our opinion, the City of Clarinda complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

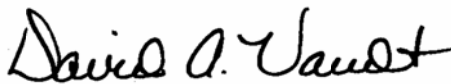
The management of the City of Clarinda is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Clarinda's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Clarinda's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected in a timely basis.


Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance we consider to be a significant deficiency, which is described in the accompanying Schedule of Findings and Questioned Costs as item III-A-11. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charge with governance.

The City of Clarinda's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the City's response, we did not audit the City of Clarinda's response and, accordingly, we express no opinion on it.

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 Clarinda and other parties to whom the City of Clarinda may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

April 17, 2012

City of Clarinda

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 20.106 - Airport Improvement Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Clarinda did not qualify as a low-risk auditee.

City of Clarinda

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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

**INTERNAL CONTROL DEFICIENCIES:**

II-A-11 Segregation of Duties – There was no evidence of review by an independent person of the monthly reconciliations of the Clerk’s balances to the bank accounts and investments.

Recommendation – To improve financial accountability and control, the monthly reconciliations should be reviewed by an independent person and evidence of this review should be documented.

Response – The City has appointed Councilor Alger to review monthly reconciliations.

Conclusion – Response accepted.

II-B-11 Computer Systems – The City does not have written policies for requiring changes to passwords every 60 to 90 days.

Recommendation – The City should develop a written policy requiring changes to passwords every 60 to 90 days.

Response – The City is currently working with Data Technologies (software vendor) to program City software to require password changes every 60 to 90 days.

Conclusion – Response accepted.

II-C-11 Segregation of Duties - Separately Maintained Records – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For the separately maintained records of the Library Foundation and Clarinda Fire and Rescue, the cash receipts listing, bank deposits, the posting of cash receipts to the cash receipts journal, disbursement preparation and check signing are all performed by the same person. Also, prenumbered receipts are not issued for all collections.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Library Foundation and Clarinda Fire and Rescue should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including administrative personnel.

Responses:

Library Foundation – Due to a limited number of Board members, segregation of duties are difficult. Nothing is done without a motion from the Board.

Clarinda Fire and Rescue – Due to a limited number of Board members, segregation of duties is not possible. All claims must be approved by the Board before payment can be made.



City of Clarinda

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Conclusions – Responses acknowledged. The Library Foundation and Clarinda Fire and Rescue 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.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Clarinda

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCY:**

**CFDA Number 20.106: Federal Aviation Administration (Airport Improvement Program)**

**Agency Number: 3-19-0017-10-2010**

**Federal Award Year: 2011**

**U.S. Department of Transportation**

III-A-11 Suspension and Debarment – OMB Circular A-133 states the City is prohibited from contracting with or making awards under covered transactions to parties who are suspended or debarred. The City has not established policies and procedures to ensure transactions are with contractors who are not suspended or debarred.

Recommendation – The City should establish and implement policies and procedures to ensure transactions are with contractors who are not suspended or debarred.

Response and Corrective Action Plan – The City will work towards establishing and implementing policies and procedures to ensure transactions are with contractors who are not suspended or debarred.

Conclusion – Response accepted.

City of Clarinda

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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

IV-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public works and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City will closely monitor expenditures in the future and amend the budget before the disbursements exceed the budget.

Conclusion – Response accepted.

IV-B-11 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-C-11 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-11 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-11 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 the coverage is adequate for current operations.

IV-F-11 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-11 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

IV-H-11 Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.

IV-I-11 Unclaimed Property – The City has several outstanding checks dated prior to May 2008 which are considered to be unclaimed property.

Recommendation – The City should report and remit all unclaimed property to the State Treasurer annually before November 1 in accordance with Chapter 556.11 of the Code of Iowa.

City of Clarinda

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Response – The City will report and remit unclaimed property to the State Treasurer annually.

Conclusion – Response accepted.

IV-J-11 Transfers - The City periodically transfers money to and from various funds and accounts. Transfers between funds are approved by the City Council by an overall summary resolution in July following the fiscal year end. Although transfers were supported by a resolution approved by the City Council, the City Council did not approve transfers throughout the fiscal year in accordance with Chapter 380 of the Code of Iowa.

Recommendation - The City should approve transfers prior to the actual transfer and document approval and amount(s) as part of the minutes record in accordance with Chapter 380 of the Code of Iowa.

Response – The City will approve transfers more often beginning with the 2012-2013 fiscal year.

Conclusion – Response accepted.

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City of Clarinda

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager  
Jennifer M. Kopp, Staff Auditor  
Dan W. Henaman, Staff Auditor  
Nicole L. Wilson, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State