



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_ June 29, 2004 \_\_\_\_\_ 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 has implemented new reporting standards for the year ended June 30, 2003, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$20,764,577 for the year ended June 30, 2003. The receipts included \$1,524,053 in property and other city tax, \$13,123,798 in charges for service, \$645,534 in operating grants and contributions, \$342,013 in capital grants and contributions, \$302,192 in local option sales tax, \$4,096,400 in debt proceeds and \$730,587 in other general receipts.

Disbursements for the year totaled \$16,958,357, and included \$999,046 for culture and recreation, \$968,317 for public safety and \$559,977 for debt service. Also, disbursements for business type activities totaled \$13,366,272, including \$12,009,667 for the Clarinda Regional Health Center and Affiliate, \$722,144 for water and \$634,461 for sewer.

A copy of the audit report is available for review in the Office of Auditor of State and in the City Clerk's office.

# # #

**CITY OF CLARINDA**

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

**JUNE 30, 2003**

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**City of Clarinda**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Frank A. Snyder	Mayor	Jan 2006
Gary Pullen	Mayor Pro tem	Jan 2004
Gordon Kokenge	Council Member	Jan 2004
Billy C. McComb	Council Member	Jan 2004
Rod Nester	Council Member	Jan 2006
Tom Farrens	Council Member	Jan 2006
Gary Walter	City Manager/Clerk	Indefinite
Eleanor Moore	Treasurer	Indefinite
Sanford Turner	Attorney	Jan 2004
John Clark	Hospital Board of Trustees, Chairman	Jan 2006
Dallas Glenn	Hospital Board of Trustees, Vice Chairman	Jan 2004
Joy Tunnicliff	Hospital Board of Trustees, Secretary/Treasurer	Jan 2004
Judy Lane	Hospital Board of Trustees	Jan 2004
Randy Pullen	Hospital Board of Trustees	Jan 2006
Keith Heuser	Hospital Administrator	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, each major fund and the aggregate remaining fund information of the City of Clarinda, Iowa, as of and for the year ended June 30, 2003, 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 basic 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 net assets and 34% of the operating receipts of the business type activities of the City of Clarinda. Those financial statements were audited by other independent 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 independent auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 that our audit and the report of 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.

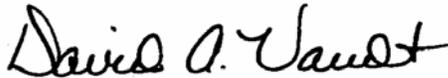
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Clarinda at June 30, 2003, and the respective changes in cash basis financial position for the year ended in conformity with the basis of accounting described in Note 1.

As described in Note 13, during the year ended June 30, 2003, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No.41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated February 24, 2004 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 and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering 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 applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Clarinda's basic financial statements. Other supplementary information included in Schedules 1 through 4 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 aforementioned 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

February 24, 2004

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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, 2003. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

### **2003 FINANCIAL HIGHLIGHTS**

- The City's governmental funds receipts increased 9%, or approximately \$261,000, from fiscal year 2002 (FY02). Property tax decreased approximately \$34,000 due to decreased property valuations.
- The City's governmental funds disbursements increased 2%, or approximately \$61,000, from FY02.
- The City's governmental funds cash balance at June 30, 2003 increased 367%, or approximately \$3,035,762, from June 30, 2002, mainly due to the refunding notes discussed below.
- The City issued \$2,855,000 of general obligation refunding notes. The proceeds will be used to advance refund \$1,215,000 of 1996 general obligation notes on the call date of June 1, 2005 and advance refund \$1,515,000 of 1997 general obligation notes on the call date of June 1, 2006.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader 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, 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 health center, waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City 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 Local Option Sales Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Funds. 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 statements for governmental funds include 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 three 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.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$3.2 million to \$7. Our analysis below focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
(Expressed in Thousands)	
	2003
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 284
Operating grants and contributions	646
Capital grants and contributions	342
General receipts:	
Property tax	1,524
Local option sales tax	302
Grants and contributions not restricted to specific purposes	102
Unrestricted investment earnings	24
Bond proceeds	3,167
Other general receipts	82
Transfers, net	155
Total receipts and transfers	<u>6,628</u>
Disbursements:	
Public safety	968
Public works	490
Culture and recreation	999
Community and economic development	135
General government	94
Debt service	560
Capital projects	346
Total disbursements	<u>3,592</u>
Increase in cash basis net assets	3,036
Cash basis net assets beginning of year	826
Cash basis net assets end of year	<u>\$ 3,862</u>

Total governmental activities receipts for the fiscal year were \$6.628 million. The cash balance increased by about \$3,036,000 from the prior year as a result of the City issuing \$2,855,000 of general obligation refunding notes and \$360,000 of general obligation project notes. Without the note proceeds, the cash balance would have decreased \$131,000. The proceeds will be used to advance refund \$1,215,000 of 1996 general obligation notes on the call date of June 1, 2005 and advance refund \$1,515,000 of 1997 general obligation notes on the call date of June 1, 2006.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	2003
Receipts:	
Program receipts:	
Charges for service:	
Clarinda Regional Health Center and Affiliate	\$ 11,383
Water	766
Sewer	691
General receipts:	
Unrestricted interest on investments	47
Note proceeds	929
Other general receipts	476
Total receipts	<u>14,292</u>
Disbursements and transfers:	
Clarinda Regional Health Center and Affiliate	12,010
Water	722
Sewer	634
Transfers	155
Total disbursements and transfers	<u>13,521</u>
Increase in cash balance	771
Cash basis net assets beginning of year	<u>2,406</u>
Cash basis net assets end of year	<u><u>\$ 3,177</u></u>

Total business type activities receipts for the fiscal year were \$14.292 million. The cash balance increased by approximately \$771,000 from the prior year because of the proceeds of \$929,325 from sewer revenue refunding notes.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Clarinda completed the year, its governmental funds reported a combined fund balance of \$3,861,925, an increase of \$3,035,762 above last year's restated total of \$826,163. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund is the operating fund of the City. At the end of the current fiscal year, the cash balance of the General Fund was \$35,167, a decrease of \$97,442 from the prior year. Approximately \$78,000 of this decrease was due to a reduction in property tax receipts received for this fiscal year.
- The Debt Service Fund cash balance increased by \$2,802,139 to \$2,858,860 during the fiscal year. This increase was attributable to approximately \$2,810,000 from the sale of refunding notes received this fiscal year. The City intends to use this money to refund two earlier note issuances when they became available to be called for repayment.
- The Capital Projects Fund was established to account for major projects within the City. At the end of the fiscal year, the cash balance was \$413,615, an increase of \$406,999 from the previous year. The increase was the result of proceeds of \$356,400 received from the issuance of general obligation loan agreement anticipation project notes and \$54,325 from the sale of capital assets. These proceeds will be used for various construction projects. The project notes will be paid with permanent long-term debt issuances when they became available to be called for repayment.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The cash balance of the Clarinda Regional Health Center and Affiliate Fund decreased by approximately \$184,000 to \$1,074,000. Receipts increased 10.6% due to charges for service and disbursements increased 11.6% due to purchases of capital assets and principal payments on debt.
- The cash balance of the Water Fund increased by approximately \$29,000 to \$434,000 due primarily to an increase in the sale of water and reductions in debt service payments from the prior year.
- The cash balance of the Sewer Fund increased by approximately \$926,000 to \$1,669,000 due to the sale of sewer revenue refunding notes which will be used to refund an earlier note issuance when the notes become available to be called for payment.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its operating budget one time. The amendment was approved on May 20, 2003 and resulted in an increase in operating disbursements related primarily to capital projects of approximately \$470,000 on various projects and operating overages in various functions. The City had sufficient cash balances to absorb these additional costs.

Even with these budget amendments, the City exceeded the budget for the culture and recreation, general government, debt service and business type activities functions for the year ended June 30, 2003. The Clarinda Regional Health Center and Affiliate Fund activity was budgeted under the health and social services function instead of the business type activities function.

**DEBT ADMINISTRATION**

At June 30, 2003, the City had approximately \$11,222,000 in bonds and other long-term debt compared to approximately \$7,489,000 last year as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)	
	2003
General obligation notes	\$ 6,115
Revenue notes	2,295
Loans	106
Interim financing	360
Clarinda Regional Health Center and Affiliate revenue bonds	1,866
Clarinda Regional Health Center and Affiliate capital leases	480
Total	<u>\$ 11,222</u>

Debt increased as a result of issuing general obligation refunding and sewer revenue refunding notes to advance refund three older debt issues. In addition, the City issued general obligation loan agreement anticipation project notes to carry out a capital project of the City.

The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5 percent of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$3,620,000 is 74% of the City’s \$4,913,252 legal debt limit.

More detailed information about the City’s long-term debt is presented in Note 3 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials and citizens considered many factors when setting the 2004 fiscal year budget. One of those factors is the economy. The City's total assessed valuations have increased slightly. However, funding from the State has decreased due to the State's budget constraints.

Property taxes are expected to decrease slightly in FY04 as compared to FY03. The General Fund balance is expected to increase modestly by the close of FY04.

## **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 Walter, City Manager, 200 South 15<sup>th</sup> Street, City of Clarinda, Iowa.

## **Basic Financial Statements**

City of Clarinda

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2003

	Disbursements	Program	
		Charges for Service	Operating Grants and Contributions
<b>Functions / Programs:</b>			
Governmental activities:			
Public safety	\$ 968,317	5,623	85,181
Public works	490,103	21,578	464,946
Culture and recreation	999,046	256,525	93,196
Community and economic development	134,748	-	-
General government	94,155	190	2,211
Debt service	559,977	-	-
Capital projects	345,739	-	-
Total governmental activities	3,592,085	283,916	645,534
Business type activities:			
Clarinda Regional Health Center and Affiliate	12,009,667	11,382,841	-
Water	722,144	766,293	-
Sewer	634,461	690,748	-
Total business type activities	13,366,272	12,839,882	-
Total primary government	\$ 16,958,357	13,123,798	645,534
Component unit:			
Clarinda Economic Development Corporation	\$ 62,092	-	-
<b>General receipts:</b>			
Property and other city tax levied for:			
General purposes			
Debt service			
Local option sales tax			
Grants and contributions not restricted to specific purpose			
Unrestricted interest on investments			
Sewer revenue refunding note proceeds (net of \$15,675 discount)			
General obligation refunding note proceeds (net of \$44,325 discount)			
General obligation corporate purpose loan agreement anticipation project note proceeds (net of \$3,600 discount)			
Miscellaneous			
Sale of capital assets			
Transfers			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year, as restated			
Cash basis net assets end of year			
<b>Cash Basis Net Assets</b>			
Restricted:			
Debt service			
Capital project purposes			
Other purposes			
Unrestricted			
Total cash basis net assets			

See notes to financial statements.

Receipts	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
	Primary Government			
Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total	Component Unit
-	(877,513)	-	(877,513)	
-	(3,579)	-	(3,579)	
342,013	(307,312)	-	(307,312)	
-	(134,748)	-	(134,748)	
-	(91,754)	-	(91,754)	
-	(559,977)	-	(559,977)	
-	(345,739)	-	(345,739)	
342,013	(2,320,622)	-	(2,320,622)	
-	-	(626,826)	(626,826)	
-	-	44,149	44,149	
-	-	56,287	56,287	
-	-	(526,390)	(526,390)	
342,013	(2,320,622)	(526,390)	(2,847,012)	
-				(62,092)
	978,851	-	978,851	-
	545,202	-	545,202	-
	302,192	-	302,192	-
	101,987	-	101,987	58,366
	24,773	46,456	71,229	-
	-	929,325	929,325	-
	2,810,675	-	2,810,675	-
	356,400	-	356,400	-
	13,365	476,067	489,432	16,567
	67,939	-	67,939	-
	155,000	(155,000)	-	-
	5,356,384	1,296,848	6,653,232	74,933
	3,035,762	770,458	3,806,220	12,841
	826,163	2,406,077	3,232,240	36,974
\$	3,861,925	3,176,535	7,038,460	49,815
\$	2,858,860	1,910,545	4,769,405	
	413,615	-	413,615	
	554,283	-	554,283	
	35,167	1,265,990	1,301,157	
\$	3,861,925	3,176,535	7,038,460	

City of Clarinda

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

As of and for the year ended June 30, 2003

	General	Debt Service	Capital Projects
<b>Receipts:</b>			
Property tax	\$ 826,231	525,784	-
Other city tax	32,607	19,418	-
Licenses and permits	9,187	-	-
Use of money and property	18,112	-	-
Intergovernmental	108,708	-	-
Charges for service	311,380	-	-
Miscellaneous	76,586	6,239	342,013
Total receipts	1,382,811	551,441	342,013
<b>Disbursements:</b>			
Operating:			
Public safety	968,317	-	-
Public works	30,729	-	-
Culture and recreation	842,610	-	-
Community and economic development	134,748	-	-
General government	94,155	-	-
Debt service	-	559,977	-
Capital projects	-	-	345,739
Total disbursements	2,070,559	559,977	345,739
Excess (deficiency) of receipts over (under) disbursements	(687,748)	(8,536)	(3,726)
<b>Other financing sources (uses):</b>			
General obligation refunding note proceeds (net of \$44,325 discount)	-	2,810,675	-
General obligation corporate purpose loan agreement anticipation project note proceeds (net \$3,600 discount)	-	-	356,400
Sale of capital assets	13,614	-	54,325
Operating transfers in	576,692	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	590,306	2,810,675	410,725
Net change in cash balances	(97,442)	2,802,139	406,999
Cash balances beginning of year, as restated	132,609	56,721	6,616
Cash balances end of year	\$ 35,167	2,858,860	413,615
<b>Cash Basis Fund Balances</b>			
Reserved:			
Debt service	\$ -	2,858,860	-
Unreserved:			
General fund	35,167	-	-
Special revenue funds	-	-	-
Capital projects fund	-	-	413,615
Permanent funds	-	-	-
Total cash basis fund balances	\$ 35,167	2,858,860	413,615

See notes to financial statements.

Other Nonmajor Governmental Funds	Total
115,832	1,467,847
306,373	358,398
-	9,187
13,817	31,929
467,023	575,731
-	311,380
58,523	483,361
<u>961,568</u>	<u>3,237,833</u>
-	968,317
459,374	490,103
156,436	999,046
-	134,748
-	94,155
-	559,977
-	345,739
<u>615,810</u>	<u>3,592,085</u>
<u>345,758</u>	<u>(354,252)</u>
-	2,810,675
-	356,400
-	67,939
13,247	589,939
(434,939)	(434,939)
<u>(421,692)</u>	<u>3,390,014</u>
(75,934)	3,035,762
630,217	826,163
<u>554,283</u>	<u>3,861,925</u>
-	2,858,860
-	35,167
393,617	393,617
-	413,615
160,666	160,666
<u>554,283</u>	<u>3,861,925</u>

**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, 2003

	Enterprise Funds			
	Clarinda Regional Health Center and Affiliate	Water	Sewer	Total
Operating receipts:				
Charges for service	\$ 11,382,841	766,293	690,748	12,839,882
Miscellaneous	413,317	54,355	8,395	476,067
Total operating receipts	11,796,158	820,648	699,143	13,315,949
Operating disbursements:				
Business type activities:				
Operations	10,859,443	567,272	404,088	11,830,803
Capital outlay	218,378	55,073	-	273,451
Debt service:				
Principal redeemed	790,124	94,990	135,000	1,020,114
Interest paid	141,722	4,659	78,749	225,130
Note issuance cost	-	-	15,924	15,924
Other	-	150	700	850
Total operating disbursements	12,009,667	722,144	634,461	13,366,272
Excess (deficiency) of operating receipts over (under) operating disbursements	(213,509)	98,504	64,682	(50,323)
Non-operating receipts:				
Sewer revenue refunding note proceeds (net of \$15,675 discount)	-	-	929,325	929,325
Interest on investments	29,111	5,743	11,602	46,456
Total non-operating receipts	29,111	5,743	940,927	975,781
Excess (deficiency) of receipts over (under) disbursements	(184,398)	104,247	1,005,609	925,458
Operating transfers out	-	(75,000)	(80,000)	(155,000)
Net change in cash balances	(184,398)	29,247	925,609	770,458
Cash balances beginning of year, as restated	1,258,378	404,380	743,319	2,406,077
Cash balances end of year	\$ 1,073,980	433,627	1,668,928	3,176,535
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	937,516	336,646	636,383	1,910,545
Unreserved	136,464	96,981	1,032,545	1,265,990
Total cash basis fund balances	\$ 1,073,980	433,627	1,668,928	3,176,535

See notes to financial statements.

## City of Clarinda

Combining Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Funds

As of and for the year ended June 30, 2003

	COBRA Insurance	Utility Payments	Total
Cash balances beginning of year	\$ 353	(1)	352
Additions:			
Miscellaneous	9,651	104,253	113,904
Deductions:			
Non-program	(9,651)	(104,253)	(113,904)
Cash balances end of year	<u>\$ 353</u>	<u>(1)</u>	<u>352</u>

See notes to financial statements.

City of Clarinda

Notes to Financial Statements

June 30, 2003

**(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, culture and recreation, community and economic development and general government. The City also provides health care, 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 reflected in this report 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 and the Clarinda Library Foundation (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 whose 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 Unit

The Clarinda Library Foundation is legally separate from the City but is so intertwined with the City it is, in substance, part of the City. The Clarinda Library Foundation was organized under Chapter 504A of the Code of Iowa as a non-profit corporation. The Foundation collects donations which are used to purchase items which are not included in the City's budget and to make donations to the City to help finance a new library. The financial transactions have been reported as a Special Revenue Fund of the City.

### Jointly Governed Organizations

The City also participates in 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 Members are 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 Assts 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 two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the proceeding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

The Debt Service Fund is utilized to account 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 Clarinda Regional Health Center and Affiliate Fund is used to account for the operation and maintenance of Clarinda Regional Health Center and Affiliate.

The Water Fund is used to account for the operation and maintenance of the City's water system.

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

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2003, disbursements exceeded the amounts budgeted in the culture and recreation, general government, debt service and business type activities functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2003 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 City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments at June 30, 2003 are as follows:

Type	Carrying Amount	Fair Value
U.S. Government Treasury securities, held in refunding notes trust escrow account	\$ 3,712,666	3,713,521

The Clarinda Regional Health Center and Affiliate investments at June 30, 2003 are as follows:

Type	Carrying Amount	Fair Value
U.S. Government Treasury securities	\$ 23,965	23,965

**(3) Debt**

Annual debt service requirements to maturity for general obligation and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 380,000	264,082	145,000	107,634	525,000	371,716
2005	665,000	232,038	145,000	96,612	810,000	328,650
2006	885,000	207,347	240,000	90,158	1,125,000	297,505
2007	915,000	176,135	245,000	80,887	1,160,000	257,022
2008	955,000	141,663	355,000	70,785	1,310,000	212,448
2009-2012	2,315,000	269,320	1,165,000	113,600	3,480,000	382,920
Total	\$ 6,115,000	1,290,585	2,295,000	559,676	8,410,000	1,850,261

During the year ended June 30, 2003, the City issued \$360,000 in general obligation corporate purpose loan agreement anticipation project notes for street improvements and utility work at 2.25% interest per annum. As of June 30, 2003, none of the notes had been redeemed.

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to the sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to the sewer reserve account until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying principal at maturity or interest on the notes when there is insufficient funds in the sewer revenue note sinking account.
- (d) Additional monthly transfers shall also be made to the sewer improvement account until a specific balance has been accumulated. This account is restricted for the purpose of paying principal or interest on the notes when there is insufficient funds in the sinking or reserve accounts and, to the extent not required for the foregoing, to pay the cost of extraordinary maintenance or repair, renewals and replacements, payment of rentals on any part of the systems and for capital improvements.

#### Refunding of Sewer Revenue Notes

On April 1, 2003, the City issued \$945,000 of sewer revenue refunding notes. The City entered into an escrow agreement with First American Bank and deposited the proceeds from the refunding notes. The proceeds will be used to advance refund \$880,000 of 1996 sewer revenue notes on the call date of June 1, 2005. The remaining funds in the escrow account will be used temporarily to meet the debt service requirements of the refunding bonds until the crossover date of June 1, 2005, at which time the escrow account will be used exclusively for the payment of principal and interest on the 1996 sewer revenue notes. As required, the City will report the liability for both the 1996 sewer revenue notes and the sewer revenue refunding notes until the crossover date. The amount available in the refunding notes trust escrow account at June 30, 2003 was \$913,401, consisting of investments in U.S. government securities.

The City, in effect, reduced its total sewer fund debt service payments by approximately \$32,300 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$28,000.

#### Refunding of General Obligation Notes

On April 1, 2003, the City issued \$2,855,000 of general obligation refunding notes. The City entered into an escrow agreement with First American Bank and deposited the proceeds from the refunding notes. The proceeds will be used to advance refund \$1,215,000 of 1996 general obligation notes on the call date of June 1, 2005. In addition, the funds in the escrow account will be used to advance refund \$1,515,000 of 1997 general obligation notes on the call date of June 1, 2006. The remaining funds in the escrow account will be used temporarily to meet the debt service requirements of the refunding bonds until the crossover dates of June 1, 2005 and June 1, 2006, respectively, at which time the escrow account will be used exclusively for the payment of principal and interest on the 1996 and 1997 general obligation notes. As required, the City will report the liability for both the 1996 and 1997 general obligation notes and the general obligation refunding notes until the crossover dates. The amount available in the refunding notes trust escrow account at June 30, 2003 was \$2,799,265, consisting of investments in U.S. government securities.

The City, in effect, reduced its total general obligation debt service payments by approximately \$102,400 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$88,000.

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

A schedule of long-term debt obligations at June 30, 2003 for the Health Center is as follows:

	<u>Amount</u>
Health Center Revenue Bonds, 1997 Series A	\$ 708,259
Health Center Revenue Bonds, 1997 Series B	1,158,016
Capital Leases	<u>479,750</u>
Total	<u>\$ 2,346,025</u>

The Health Center revenue bonds, 1997 Series A require monthly payments of principal and interest with interest at the rate of 5.55%. The interest rate is adjustable every five years beginning in October 2002. The interest rate at June 30, 2003 was 3.65%. Principal and interest payments are due through September 2012.

The Health Center revenue bonds, 1997 Series B require monthly payments of principal and interest with interest at the rate of 5.55%. The interest rate is adjustable every five years beginning in October 2003. Principal and interest payments are due through September 2013.

The 1997 Series A and B revenue bond agreements require the Health Center to maintain a minimum balance of board designated funds based on the outstanding balance on the bonds. The minimum required balance was approximately \$750,000 at June 30, 2003.

In connection with the Health Center revenue bonds, 1997 Series A and B, the Health Center is required to comply with specific covenants outlined in the loan agreement. At June 30, 2003, the Health Center was not in compliance with various covenants, for which the Trustee issued a waiver letter.

The Health Center leases certain equipment under capital lease arrangements. Leases require monthly payments of principal and interest at rates ranging from 5.14% to 6.44%. Leases are secured by equipment.

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 243,336	119,678	363,014
2005	255,531	107,484	363,015
2006	259,731	92,947	352,678
2007	263,769	78,573	342,342
2008	264,284	64,949	329,233
2009-2013	<u>1,059,374</u>	<u>153,611</u>	<u>1,212,985</u>
Total	<u>\$ 2,346,025</u>	<u>617,242</u>	<u>2,963,267</u>

**(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.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2003, 2002 and 2001 were \$82,062, \$79,714 and \$74,581, respectively, equal to the required contributions for each year. The Health Center's contributions to IPERS for the years ended June 30, 2003, 2002 and 2001 were approximately \$275,000, \$276,000 and \$266,000, respectively, equal to the required contributions for each year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation 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 also allowed employees to accumulate compensatory time during the fiscal year in lieu of overtime pay. The City's approximate liability for earned compensated absences payable to employees at June 30, 2003, primarily relating to the General Fund, is as follows:

---

Type of Benefit	Amount
Vacation	\$ 101,000
Compensatory time	<u>24,000</u>
Total	<u>\$ 125,000</u>

These liabilities have been computed based on rates of pay in effect at June 30, 2003.

The Health Center's liability for earned compensated absences payable to employees is approximately \$257,000 at June 30, 2003.

**(6) Rural Community 2000 Program Loan**

During the year ended June 30, 1992, the City was awarded a loan of \$301,406 for water system improvements from the Iowa Department of Economic Development's Rural Community 2000 Program. The loan requires fifteen annual payments of \$22,512, including two percent per annum interest on the unpaid balance. The balance outstanding on this loan at June 30, 2003 was \$106,109. Annual debt service requirements to maturity are as follows:

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Year Ending June 30,	Principal	Interest	Total
2004	\$ 20,390	2,122	22,512
2005	20,797	1,715	22,512
2006	21,213	1,299	22,512
2007	21,638	874	22,512
2008	22,071	441	22,512
Total	<u>\$ 106,109</u>	<u>6,451</u>	<u>112,560</u>

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**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2003 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 302,192
	Employee Benefits	93,500
	Emergency	26,000
	Enterprise:	
	Water	75,000
	Sewer	80,000
		<u>576,692</u>
Special Revenue:	Permanent:	
Library Memorial	Library Bequest	13,247
Total		<u>\$ 589,939</u>

**(8) Risk Management**

City

The City is a member in 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 with over 400 members from 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 300 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 annual contributions to the Pool for the year ended June 30, 2003 were \$38,085.

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 \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks, including automobile physical damage, are also reinsured on an individual-member basis.

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 that 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, 2003, 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 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 capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual 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 recognized under the plan by the Health Center for the year ended June 30, 2003 were approximately \$680,000.

#### **(9) Deficit Balance**

At June 30, 2003, the General Fund, General Account and the Capital Projects Fund, West Tarkio Reservoir Account had deficit balances of \$19,228 and \$46,731, respectively. The deficit balances were the result of one extra payroll and paying some project disbursements, respectively. The deficits will be eliminated with corrective transfers.

**(10) Pending Litigation**

The Clarinda Regional Health Center and Affiliate has been named as the defendant in a lawsuit. Management is vigorously defending the claim and does not anticipate any settlement would be material to the financial statements.

**(11) Commitments**

During the year ended June 30, 2003, the City entered into construction contracts for a library building, the Davison Drive RISE project and industrial park utility extensions. At June 30, 2003, \$1,785,504 remained to be paid on these contracts. Payments will be made from note proceeds and grants as work progresses on the projects.

**(12) Subsequent Events**

City

In July 2003, the City issued \$1,000,000 of general obligation notes to pay the costs of a new library building. The City also received donations from the Library Foundation and the Clarinda Foundation which will be used to help pay for construction costs for this project.

Health Center

Activity in the Clarinda Medical Foundation consists primarily of Clarinda Medical Associates, which is a clinic attached to the Health Center. Effective January 1, 2004, Clarinda Medical Associates became a department of the Health Center and will be presented as such in future periods.

**(13) Accounting Change and Restatements**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2003. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The City did not previously report the Fire Department, Library Foundation and Clarinda Regional Health Center and Affiliate as part of the General Fund, Special Revenue Funds and Enterprise Funds, respectively. Also, the City reclassified the Library Bequest Fund from an Expendable Trust Fund to a Permanent Fund and the Cemetery Perpetual Care Fund from a Non-Expendable Trust Fund to a Permanent Fund. The effects of these restatements are as follows:

	Governmental Activities	Business Type Activities
Net assets June 30, 2002, as previously reported	\$ 359,439	1,147,699
General:		
Fire Department	43,502	-
Special Revenue:		
Library Foundation	299,309	-
Permanent:		
Cemetery Perpetual Care	60,666	-
Library Bequest	63,247	-
Enterprise:		
Clarinda Regional Health Center and Affiliate	-	1,258,378
Net assets July 1, 2002, as restated	\$ 826,163	2,406,077

**City of Clarinda**

**Required Supplementary Information**

City of Clarinda

Budget 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, 2003

	Governmental Fund Actual	Proprietary Fund Actual	Less Funds not Required to be Budgeted
<b>Receipts:</b>			
Property tax	\$ 1,467,847	-	-
Other city tax	358,398	-	-
Licenses and permits	9,187	-	-
Use of money and property	45,543	48,256	9,733
Intergovernmental	575,731	-	3,783
Charges for service	311,380	12,839,882	-
Miscellaneous	483,361	474,267	8,523
Total receipts	<u>3,251,447</u>	<u>13,362,405</u>	<u>22,039</u>
<b>Disbursements:</b>			
Public safety	968,317	-	-
Public works	490,103	-	-
Health and social services	-	-	-
Culture and recreation	999,046	-	156,436
Community and economic development	134,748	-	-
General government	94,155	-	-
Debt service	559,977	-	-
Capital projects	345,739	-	-
Business type activities	-	13,366,272	-
Total disbursements	<u>3,592,085</u>	<u>13,366,272</u>	<u>156,436</u>
Excess (deficiency) of receipts over (under) disbursements	(340,638)	(3,867)	(134,397)
Other financing sources, net	3,376,400	774,325	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	3,035,762	770,458	(134,397)
Balances beginning of year, as restated	826,163	2,406,077	299,309
Balances end of year	<u>\$ 3,861,925</u>	<u>3,176,535</u>	<u>164,912</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
1,467,847	1,469,004	1,469,004	(1,157)
358,398	386,423	386,423	(28,025)
9,187	9,300	9,300	(113)
84,066	80,000	80,000	4,066
571,948	595,000	595,000	(23,052)
13,151,262	12,545,510	12,545,510	605,752
949,105	43,500	43,500	905,605
<u>16,591,813</u>	<u>15,128,737</u>	<u>15,128,737</u>	<u>1,463,076</u>
968,317	964,433	969,433	1,116
490,103	566,938	596,938	106,835
-	10,058,338	10,058,338	10,058,338
842,610	682,485	694,485	(148,125)
134,748	125,000	140,000	5,252
94,155	84,119	92,119	(2,036)
559,977	548,468	548,468	(11,509)
345,739	-	470,000	124,261
13,366,272	1,423,862	1,423,862	(11,942,410)
<u>16,801,921</u>	<u>14,453,643</u>	<u>14,993,643</u>	<u>(1,808,278)</u>
(210,108)	675,094	135,094	(345,202)
<u>4,150,725</u>	<u>-</u>	<u>540,000</u>	<u>3,610,725</u>
3,940,617	675,094	675,094	3,265,523
3,531,549	7,326,053	7,326,053	(3,794,504)
<u>7,472,166</u>	<u>8,001,147</u>	<u>8,001,147</u>	<u>(528,981)</u>

City of Clarinda

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2003

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 blended component units and Agency Funds. The annual budget may be amended during the year utilizing similar statutory prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, Permanent Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$540,000. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2003, disbursements exceeded the amounts budgeted in the culture and recreation, general government, debt service and business type activities functions. The Health Center was budgeted in the health and social services function rather than the business type activities function.

**Other Supplementary Information**

City of Clarinda

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

As of and for the year ended June 30, 2003

	Special Revenue					
	Road Use Tax	Local Option Sales Tax	Employee Benefits	Emergency	Library Foundation	Library Memorial
Receipts:						
Property tax	\$ -	-	90,449	25,383	-	-
Other city tax	-	302,192	3,248	933	-	-
Use of money and property	-	-	-	-	9,733	4,084
Intergovernmental	463,240	-	-	-	3,783	-
Miscellaneous:	-	-	-	-	8,523	-
Total receipts	463,240	302,192	93,697	26,316	22,039	4,084
Disbursements:						
Operating:						
Public works	459,374	-	-	-	-	-
Culture and recreation	-	-	-	-	156,436	-
Total disbursements	459,374	-	-	-	156,436	-
Excess (deficiency) of receipts over (under) disbursements	3,866	302,192	93,697	26,316	(134,397)	4,084
Other financing sources (uses):						
Operating transfers in	-	-	-	-	-	13,247
Operating transfers out	-	(302,192)	(93,500)	(26,000)	-	-
Total other financing sources (uses)	-	(302,192)	(93,500)	(26,000)	-	13,247
Net change in cash balances	3,866	-	197	316	(134,397)	17,331
Cash balances beginning of year, as restated	22,217	184,773	3	2	299,309	-
Cash balances end of year	\$ 26,083	184,773	200	318	164,912	17,331
<b>Cash Basis Fund Balances</b>						
Unreserved:						
Special revenue funds	\$ 26,083	184,773	200	318	164,912	17,331
Permanent funds	-	-	-	-	-	-
Total cash basis fund balances	\$ 26,083	184,773	200	318	164,912	17,331

See accompanying independent auditor's report.

Permanent			
Cemetery			
Perpetual	Library		Total
Care	Bequest		
-	-		115,832
-	-		306,373
-	-		13,817
-	-		467,023
-	50,000		58,523
-	50,000		961,568
-	-		459,374
-	-		156,436
-	-		615,810
-	50,000		345,758
-	-		13,247
-	(13,247)		(434,939)
-	(13,247)		(421,692)
-	36,753		(89,181)
60,666	63,247		630,217
60,666	100,000		554,283
-	-		393,617
60,666	100,000		160,666
60,666	100,000		554,283

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City of Clarinda

Schedule of Indebtedness

As of and for the year ended June 30, 2003

	Date of Issue	Interest Rates	Amount Originally Issued
City:			
General obligation notes:			
General corporate purpose	Jul 1, 1994	4.40-5.50%	\$ 260,000
General corporate purpose	Mar 1, 1996	4.15-5.10	2,155,000
Essential corporate purpose	May 1, 1997	4.50-5.65	2,855,000
Refunding	Apr 1, 2003	1.80-3.65	2,855,000
Revenue notes:			
Water capital loan	Sep 1, 1992	3.75-5.70%	\$ 280,000
Sewer capital loan	Jul 1, 1996	4.75-6.15	1,220,000
Sewer refunding capital loan	May 1, 2002	3.00-4.25	465,000
Sewer refunding	Apr 1, 2003	2.35-3.65	945,000
Loans:			
Rural Community 2000 Program	1992	2.00%	\$ 301,406
Interim financing:			
General obligation corporate purpose loan agreement anticipation project notes	Apr 24, 2003	2.25%	\$ 360,000
Clarinda Regional Health Center and Affiliate:			
Revenue bonds:			
1997 Series A			
1997 Series B			
Capital leases:			
Equipment			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
110,000	-	30,000	80,000	5,950
1,585,000	-	130,000	1,455,000	77,545
1,925,000	-	200,000	1,725,000	104,072
-	2,855,000	-	2,855,000	-
3,620,000	2,855,000	360,000	6,115,000	187,567
75,000	-	75,000	-	2,137
1,020,000	-	40,000	980,000	60,170
465,000	-	95,000	370,000	18,579
-	945,000	-	945,000	-
1,560,000	945,000	210,000	2,295,000	80,886
126,099	-	19,990	106,109	2,522
-	360,000	-	360,000	-
\$ 771,952	-	63,693	708,259	33,095
1,237,851	-	79,835	1,158,016	67,765
\$ 2,009,803	-	143,528	1,866,275	100,860
\$ 172,533	403,813	96,596	479,750	27,364

**Schedule 3**

City of Clarinda

Notes Maturities

June 30, 2003

General Obligation Notes									
Year Ending June 30,	General Corporate Purpose Issued Jul 1, 1994		General Corporate Purpose Issued Mar 1, 1996		Essential Corporate Purpose Issued May 1, 1997		Refunding Issued Apr 1, 2003		Total
	Interest		Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2004	5.40%	\$ 40,000	4.70%	\$ 240,000	5.15%	\$ 100,000		\$ -	\$ 380,000
2005	5.50	40,000	4.80	250,000	5.20	110,000	1.80%	265,000	665,000
2006		-	4.90	305,000	5.25	115,000	2.20	465,000	885,000
2007		-	5.00	320,000	5.30	120,000	2.55	475,000	915,000
2008		-	5.10	340,000	5.35	125,000	2.90	490,000	955,000
2009		-		-	5.45	260,000	3.10	270,000	530,000
2010		-		-	5.50	280,000	3.30	285,000	565,000
2011		-		-	5.55	300,000	3.50	300,000	600,000
2012		-		-	5.65	315,000	3.65	305,000	620,000
Total		<u>\$ 80,000</u>		<u>\$1,455,000</u>		<u>\$1,725,000</u>		<u>\$2,855,000</u>	<u>\$ 6,115,000</u>

Revenue Notes							
Year Ending June 30,	Sewer Capital Loan Issued Jul 1, 1996		Sewer Refunding Capital Loan Issued May 1, 2002		Sewer Refunding Capital Loan Issued Apr 1, 2003		Total
	Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	
2003							
2004	5.50%	\$ 45,000	3.50%	\$ 100,000		\$ -	\$ 145,000
2005	5.60	55,000	3.75	90,000		-	145,000
2006	5.65	65,000	4.00	90,000	2.35%	85,000	240,000
2007	5.75	70,000	4.25	90,000	2.65	85,000	245,000
2008	5.85	170,000		-	3.05	185,000	355,000
2009	5.95	180,000		-	3.25	190,000	370,000
2010	6.05	190,000		-	3.45	195,000	385,000
2011	6.15	205,000		-	3.65	205,000	410,000
Total		<u>\$980,000</u>		<u>\$ 370,000</u>		<u>\$ 945,000</u>	<u>\$2,295,000</u>

See accompanying independent auditor's report.

## City of Clarinda

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

Year ended June 30, 2003

	<u>2003</u>
Receipts:	
Property tax	\$ 1,467,847
Other city tax	358,398
Licenses and permits	9,187
Use of money and property	31,929
Intergovernmental	575,731
Charges for service	311,380
Miscellaneous	<u>483,361</u>
Total	<u>\$ 3,237,833</u>
Disbursements:	
Operating:	
Public safety	\$ 968,317
Public works	490,103
Culture and recreation	999,046
Community and economic development	134,748
General government	94,155
Debt service	559,977
Capital projects	<u>345,739</u>
Total	<u>\$ 3,592,085</u>

See accompanying independent auditor's report.

**City of Clarinda**



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Compliance  
and on Internal Control over Financial Reporting

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Clarinda, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated February 24, 2004. Our report expressed a unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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 and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2003 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. Prior year statutory comments have been resolved except for items (2) and (3).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Clarinda's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Clarinda's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described in the accompanying Schedule of Findings is a material weakness. The prior year reportable condition has been resolved.

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. This report 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

February 24, 2004

City of Clarinda

Schedule of Findings

Year ended June 30, 2003

**Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITION:**

- (A) Information Systems – During our review of internal control, the existing control activities in the City's computer based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City's computer based systems were noted:

The City does not have written policies for:

- Requiring user profiles to help limit access to programs to those who have a legitimate need.
- Requiring a time out and/or log off function or a screen saver password to protect a terminal if left unattended.
- Requiring password changes because software does not require the user to change log-ins/passwords periodically.
- Requiring monthly and year end backups of the computer data.
- Usage of the internet.

Also, the City does not have a written disaster recovery plan and does not require back up tapes to be stored off site daily.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over computer based systems. A written disaster recovery plan should be developed and back-up tapes should be stored off site daily in a fireproof vault or safe.

Response – The City is currently gathering information to develop written policies to address all of these items. Passwords have been installed. Backup tapes will be stored off site.

Conclusion – Response accepted.

City of Clarinda

Schedule of Findings

Year ended June 30, 2003

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

- (1) Official Depositories – A resolution naming official depositories has been adopted by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2003.
- (2) Certified Budget – Disbursements during the year ended June 30, 2003 exceeded the amounts budgeted in the culture and recreation, general government, debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that 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 – We will amend in sufficient amount in the future.

Conclusion – Response accepted.

- (3) Questionable Disbursements – The City paid \$48,366 to the Clarinda Economic Development Corporation (Corporation) during fiscal year 2003. These payments may not be an appropriate expenditure of public funds since the public benefits to be derived have not been clearly documented.

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises that the governing body should evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.

Recommendation – The City Council should document the public purpose served by the disbursement before authorizing further payments. Documentation should include how the funds are to be used to accomplish economic development activities.

Response – The City Council approved a \$140,000 appropriation for economic development as part of the budget for the year ended June 30, 2003. This was based on an estimated cost for the economic development department. The Clarinda Economic Development Corporation provided a profit and loss statement for the year ended June 30, 2003. Also, all bills paid by the Corporation are reviewed and approved by the Corporation's board.

Conclusion – Response acknowledged. Although a profit and loss statement was provided by the Corporation, the documentation did not include how funds were used to accomplish economic development activities. The agreement with the Corporation should be amended to include requirements addressing subsequent accountability for funding to enable the City to evaluate the public benefits obtained and consider specific criteria in documenting the public purpose.

- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Clarinda

Schedule of Findings

Year ended June 30, 2003

- (5) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (6) 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.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (8) 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.
- (9) Revenue Notes – The City has complied with the requirements of the revenue note resolutions.
- (10) Financial Condition – The General Fund, General Account and the Capital Projects Fund, West Tarkio Reservoir Account had deficit balances of \$19,228 and \$46,731, respectively, at June 30, 2003. This was caused by having one extra payroll in fiscal year 2003 for the General Fund and by paying some disbursements for the West Tarkio Reservoir project.

Recommendation – The City should determine the amount of the corrective transfers needed to eliminate these deficits in order to return these accounts to a sound financial position.

Response – In June 2004, \$12,000 will be transferred from the Special Revenue, Emergency Fund and \$7,228 will be transferred from the Special Revenue, Employee Benefits Fund to the General Fund.

In June 2004, \$46,731 will be transferred from the Enterprise Fund, Water works Operating account to the Capital Projects Fund, West Tarkio Reservoir account.

Conclusion – Response accepted.

- (11) Local Option Sales Tax – The ballot for the local option sales tax authorizes the City to collect the tax and to allocate it 55% for property tax relief, 20% for community protection, 20% for streets and 5% for economic development. The City does not maintain adequate records to document the proper expenditure of local option sales tax for the authorized uses.

Recommendation – The City should establish procedures to accumulate and document local option sales tax disbursements to demonstrate compliance with ballot requirements.

Response – The City will take this recommendation under advisement and consider a transfer method to document disbursements.

Conclusion – Response acknowledged. The City should demonstrate compliance with the ballot requirements.

City of Clarinda

Schedule of Findings

Year ended June 30, 2003

- (12) Payroll – The City Council approves a fiscal year salary for employees and the annual salary is divided by 26 payrolls to calculate an employee’s biweekly salary. 26 payrolls times ten working days in a biweekly period means there are 260 working days in a fiscal year. The actual number of working days in a fiscal year varies from 260 to 262 working days. There were 261 actual working days in fiscal year 2003.

Recommendation – The approved salary should be divided by the actual number of working days in the fiscal year times 10 working days to calculate a biweekly salary for employees.

Response – We will adjust our payroll according to the actual number of working days in a fiscal year.

Conclusion – Response accepted.

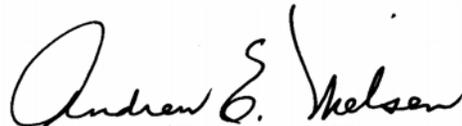
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City of Clarinda

Staff

This audit was performed by:

K. David Voy, CPA, Manager  
Nancy F. Curtis, CPA, Senior Auditor II  
Paul F. Kearney, CGFM, Senior Auditor  
Trevor L. Theulen, Assistant Auditor



Andrew E. Nielsen, CPA  
Deputy Auditor of State