



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

April 3, 2006

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

The City's receipts totaled \$21,887,082 for the year ended June 30, 2005, a 17 percent increase over 2004. The receipts included \$1,640,055 in property tax, \$11,685 in tax increment financing, \$16,495,027 from charges for service, \$676,265 from operating grants and contributions, \$793,695 from capital grants and contributions, \$338,330 from local option sales tax, \$82,450 from unrestricted interest on investments, \$1,624,090 from note proceeds and \$225,485 from other general receipts.

Disbursements for the year totaled \$22,631,555 a 14 percent increase over the prior year, and included \$2,230,532 for debt service, \$1,384,965 for capital projects and \$940,357 for public safety. Also, disbursements for business type activities totaled \$15,874,161.

The significant increase in receipts and disbursements is primarily due to business type activities for the Clarinda Regional Health Center and Affiliate.

A copy of the 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/reports.htm>.

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CITY OF CLARINDA

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

JUNE 30, 2005

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City of Clarinda

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------|--|---------------------|
| Frank A. Snyder | Mayor | Jan 2006 |
| Rod Nester | Mayor Pro tem | Jan 2006 |
| Tom Farrens | Council Member | (Resigned) |
| Gordon Kokenge | Council Member | (Resigned) |
| Dave Long | Council Member | Jan 2006 |
| Billy C. McComb | Council Member | Jan 2008 |
| Geary Kendall | Council Member | Jan 2008 |
| Shawn Fechter | Council Member | Jan 2008 |
| John Clark | Hospital Board of Trustees, Chairman | Jan 2006 |
| Dallas Glenn | Hospital Board of Trustees, Vice Chairman | Jan 2008 |
| Joy Tunnicliff | Hospital Board of Trustees, Secretary/Treasurer | Jan 2008 |
| Judy Lane | Hospital Board of Trustees | Jan 2008 |
| Randy Pullen | Hospital Board of Trustees | Jan 2006 |
| Keith Heuser | Chief Executive Officer | Indefinite |
| Gary Walter | City Manager | Indefinite |
| Gary McClarnon | Clerk/Treasurer | Indefinite |
| Sanford Turner | 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, 2005, 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 75% of the cash basis net assets and 91% of the operating receipts of the business type activities of the City of Clarinda. 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.

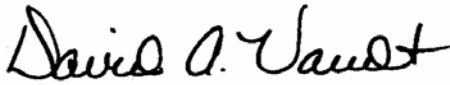
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

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, 2005, 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.

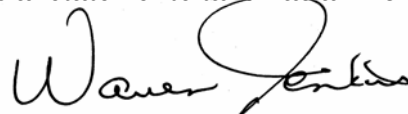
In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2005, except for Note 3 as to which the date is January 25, 2006, on our consideration of the City of Clarinda's internal control over financial reporting and our tests of its compliance with certain provisions 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 internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of 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 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 two years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those 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 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

October 24, 2005, except for Note 3
as to which the date is January 25, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Receipts and net transfers of the City's governmental activities decreased 4.5%, or approximately \$239,000, from fiscal 2004 to fiscal 2005. Bond proceeds increased approximately \$128,000.
- Disbursements of the City's governmental activities decreased 5.2%, or approximately \$333,000, in fiscal 2005 from fiscal 2004. Debt service and capital projects disbursements increased (decreased) approximately \$720,000 and (\$443,000), respectively.
- The City's governmental activities cash basis net assets decreased 60%, or approximately \$1,662,000, from June 30, 2004 to June 30, 2005, mainly due to refunding notes issued in a prior year and used to refund general obligation notes and revenue notes in the current year.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, 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 Clarinda Regional Health Center and Affiliate, the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has three 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 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 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 statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

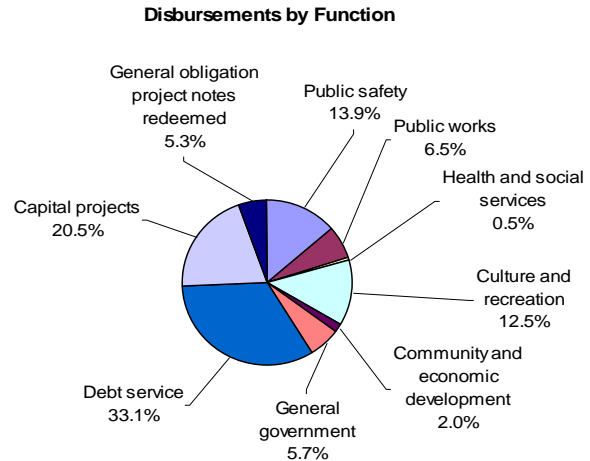
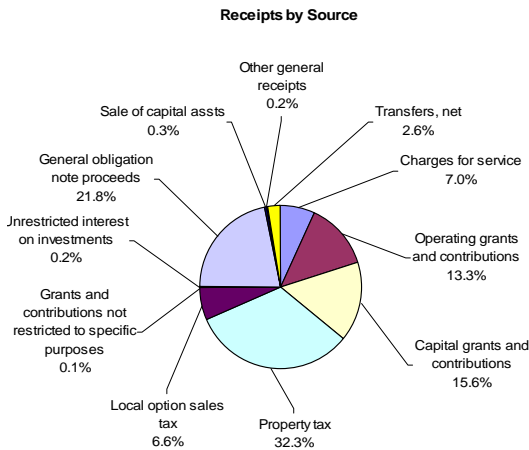
3) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the City's own programs. The fiduciary funds include Agency Funds to account for COBRA insurance and utility payments.

The required financial statement for fiduciary funds is a statement of changes in fiduciary assets and liabilities.

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 sharply from a year ago, decreasing from \$2,772,451 to \$1,110,095. The analysis that follows focuses on the changes in cash balances for governmental activities.

| Changes in Cash Basis Net Assets of Governmental Activities | | |
|---|------------------------|------------------|
| | Year ended June 30, | |
| | 2005 | 2004 |
| Receipts and transfers: | | |
| Program receipts: | | |
| Charges for service | \$ 356,447 | 313,581 |
| Operating grants and contributions | 676,265 | 609,727 |
| Capital grants and contributions | 793,695 | 765,310 |
| General receipts: | | |
| Property tax | 1,651,740 | 1,523,317 |
| Local option sales tax | 338,330 | 355,145 |
| Grants and contributions not restricted to specific purposes | 4,506 | 29,908 |
| Unrestricted interest on investments | 8,094 | 14,501 |
| General obligation note proceeds | 1,109,290 | 981,500 |
| Sale of capital assts | 15,450 | 2,749 |
| Other general receipts | 10,212 | 13,767 |
| Transfers, net | 131,009 | 725,000 |
| Total receipts and transfers | <u>5,095,038</u> | <u>5,334,505</u> |
| Disbursements: | | |
| Public safety | 940,357 | 921,658 |
| Public works | 441,016 | 467,568 |
| Health and social services | 33,371 | 3,500 |
| Culture and recreation | 843,964 | 842,821 |
| Community and economic development | 136,940 | 160,694 |
| General government | 386,249 | 328,775 |
| Debt service | 2,230,532 | 1,870,911 |
| Capital projects | 1,384,965 | 1,828,052 |
| General obligation project notes redeemed | 360,000 | - |
| Total disbursements | <u>6,757,394</u> | <u>6,423,979</u> |
| Decrease in cash basis net assets | (1,662,356) | (1,089,474) |
| Cash basis net assets beginning of year | <u>2,772,451</u> | <u>3,861,925</u> |
| Cash basis net assets end of year | <u>\$ 1,110,095</u> | <u>2,772,451</u> |



The City's total receipts and net transfers for governmental activities decreased by 4.5%, or \$239,467. The total cost of all programs and services increased by approximately \$333,000, or 5.2%, with no new programs added this year. The decrease in receipts and net transfers was primarily the result of transfers received from the water and sewer funds in the prior year being reduced for the current year. The increase in disbursements was due to the redemption of the general obligation project notes.

| Changes in Cash Basis Net Assets of Business Type Activities | | |
|--|---------------------|-------------------|
| | Year ended | |
| | June 30, | |
| | 2005 | 2004 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service: | | |
| Clarinda Regional Health Center and Affiliate | \$ 14,657,041 | 12,590,059 |
| Water | 840,635 | 801,117 |
| Sewer | 640,904 | 613,828 |
| General receipts: | | |
| Unrestricted interest on investments | 74,356 | 54,874 |
| Note proceeds | 514,800 | - |
| Other general receipts | 195,317 | 1,050 |
| Total receipts | 16,923,053 | 14,060,928 |
| Disbursements and transfers: | | |
| Clarinda Regional Health Center and Affiliate | 13,369,929 | 12,220,986 |
| Water | 1,043,773 | 692,139 |
| Sewer | 1,460,459 | 517,450 |
| Transfers | 131,009 | 725,000 |
| Total disbursements and transfers | 16,005,170 | 14,155,575 |
| Increase (decrease) in cash basis net assets | 917,883 | (94,647) |
| Cash basis net assets beginning of year | 3,081,888 | 3,176,535 |
| Cash basis net assets end of year | \$ 3,999,771 | 3,081,888 |

Total business type activities receipts for the fiscal year were \$16,923,053 compared to \$14,060,928 last year. This significant increase was due primarily to the increase in charges for service for the Health Center of \$2,262,299 over the prior year. The cash balance increased by approximately \$918,000 over the prior year due to increased cost position of the Health Center. Total disbursements and transfers for the fiscal year increased by 13.1% to a total of \$16,005,170. Water disbursements increased by \$351,634 due primarily to the acquisition of capital assets. Sewer disbursements increased by \$943,009 due primarily to using the remaining refunding note proceeds to refund sewer revenue notes.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Clarinda completed the year, its governmental funds reported a combined fund balance of \$1,110,095, a decrease of more than \$1,662,000 below last year's total of \$2,772,451. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$261,206 from the prior year to \$(161,771). Total receipts increased by 2.9% and disbursements decreased by 3.3%, but a decrease in transfers from water and sewer funds from \$650,000 to \$125,000 resulted in a decrease in the ending balance from the prior year.
- The Road Use Tax Fund cash balance increased by \$116,303 to \$167,801 during the fiscal year. This increase was attributable to a decrease in disbursements of \$91,694 due to a change in salary distributions and reductions in street light and group insurance costs charged to the Road Use Tax Fund.
- The Debt Service Fund cash balance decreased by \$1,562,157 to zero during the fiscal year. This decrease was due to using the remaining refunding note proceeds to retire a note issue during the year. The property tax collections were reduced by \$46,606 from the prior year and were replaced by local option sales tax used for property tax relief.
- The Capital Projects Fund cash balance increased by \$272,586 to \$779,959 during the fiscal year. The increase was due to note proceeds on hand to complete various projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The cash balance of the Clarinda Regional Health Center and Affiliate Fund increased by \$1,514,157 to \$2,993,556. Receipts increased by 20% due to increased charges for service and disbursements increased by 9.4%.
- The cash balance of the Water Fund increased by \$245,710 to \$519,152, due primarily to a decrease in the transfer of funds to the General Fund from \$200,000 in the prior year to \$62,500 in the current year and \$514,800 in project note proceeds. Also, disbursements increased by \$351,634, due primarily to the acquisition of capital assets.
- The Sewer Fund cash balance decreased by \$841,984 to \$487,063, due primarily to using the remaining refunding note proceeds to refund sewer revenue notes.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The amendments were approved on November 23, 2004 and May 24, 2005 and resulted in an increase in operating disbursements related primarily to health and social services and capital projects of approximately \$4,038,000 for hospital expenses and project costs. The City had sufficient cash balances to absorb these additional costs.

Even with the budget amendments, the City exceeded the budget for the debt service and business type activities functions for the year ended June 30, 2005. 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, 2005, the City had approximately \$8,510,000 in bonds and other long-term debt, compared to approximately \$10,169,000 last year, as shown below.

| | Outstanding Debt at Year-End | |
|--|------------------------------|------------|
| | June 30, | |
| | 2005 | 2004 |
| General obligation notes | \$ 4,610,000 | 5,465,000 |
| Revenue notes | 1,125,000 | 2,150,000 |
| Loans | 64,922 | 85,719 |
| Interim financing | 520,000 | 360,000 |
| Clarinda Regional Health Center and Affiliate revenue bonds | 1,543,569 | 1,709,604 |
| Clarinda Regional Health Center and Affiliate capital leases | 646,732 | 399,246 |
| Total | \$ 8,510,223 | 10,169,569 |

Debt decreased as a result of refunding two note issues using proceeds from refunding notes issued in a previous year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$4,674,922 is significantly below its constitutional debt limit of \$7,806,454.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

City of Clarinda's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees charged for various City activities. 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 increase slightly in FY 2006 as compared to FY 2005. The General Fund balance is expected to increase slightly by the close of FY 2006.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$465,000 compared to fiscal year 2005 actual balances.

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 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, 2005

| | Disbursements | Program Receipts | | |
|---|---------------|---------------------|------------------------------------|----------------------------------|
| | | Charges for Service | Operating Grants and Contributions | Capital Grants and Contributions |
| Functions/Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 940,357 | 12,068 | 136,618 | - |
| Public works | 441,016 | 19,477 | 473,100 | - |
| Health and social services | 33,371 | - | - | - |
| Culture and recreation | 843,964 | 258,806 | 13,872 | - |
| Community and economic development | 136,940 | - | - | - |
| General government | 386,249 | 66,096 | 176 | - |
| Debt service | 2,230,532 | - | 52,499 | - |
| Capital projects | 1,384,965 | - | - | 793,695 |
| Total governmental activities | 6,397,394 | 356,447 | 676,265 | 793,695 |
| Business type activities: | | | | |
| Clarinda Regional Health Center and Affiliate | 13,369,929 | 14,657,041 | - | - |
| Water | 1,043,773 | 840,635 | - | - |
| Sewer | 1,460,459 | 640,904 | - | - |
| Total business type activities | 15,874,161 | 16,138,580 | - | - |
| Total primary government | \$ 22,271,555 | 16,495,027 | 676,265 | 793,695 |
| Component unit: | | | | |
| Clarinda Economic Development Corporation | \$ 47,088 | - | - | - |
| General receipts: | | | | |
| Property and other city tax levied for: | | | | |
| General purposes | | | | |
| Tax increment financing | | | | |
| Debt service | | | | |
| Local option sales tax | | | | |
| Grants and contributions not restricted to specific purpose | | | | |
| Unrestricted interest on investments | | | | |
| Water revenue loan agreement anticipation project note proceeds (net of \$5,200 discount) | | | | |
| General obligation note proceeds (net of \$20,710 discount) | | | | |
| General obligation project notes redeemed | | | | |
| Miscellaneous | | | | |
| Sale of capital assets | | | | |
| Transfers | | | | |
| Total general receipts and transfers | | | | |
| Change in cash basis net assets | | | | |
| Cash basis net assets beginning of year | | | | |
| Cash basis net assets end of year | | | | |
| Cash Basis Net Assets | | | | |
| Restricted: | | | | |
| Debt service | | | | |
| Capital projects | | | | |
| Other purposes | | | | |
| Unrestricted | | | | |
| Total cash basis net assets | | | | |

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 |
|-------------------------|--------------------------|-------------|----------------|
| (791,671) | - | (791,671) | - |
| 51,561 | - | 51,561 | - |
| (33,371) | - | (33,371) | - |
| (571,286) | - | (571,286) | - |
| (136,940) | - | (136,940) | - |
| (319,977) | - | (319,977) | - |
| (2,178,033) | - | (2,178,033) | - |
| (591,270) | - | (591,270) | - |
| (4,570,987) | - | (4,570,987) | - |
| - | 1,287,112 | 1,287,112 | - |
| - | (203,138) | (203,138) | - |
| - | (819,555) | (819,555) | - |
| - | 264,419 | 264,419 | - |
| (4,570,987) | 264,419 | (4,306,568) | - |
| | | | (47,088) |
| 1,291,888 | - | 1,291,888 | - |
| 11,685 | - | 11,685 | - |
| 348,167 | - | 348,167 | - |
| 338,330 | - | 338,330 | - |
| 4,506 | - | 4,506 | 87,862 |
| 8,094 | 74,356 | 82,450 | 640 |
| - | 514,800 | 514,800 | - |
| 1,109,290 | - | 1,109,290 | - |
| (360,000) | - | (360,000) | - |
| 10,212 | 195,317 | 205,529 | 15,580 |
| 15,450 | - | 15,450 | - |
| 131,009 | (131,009) | - | - |
| 2,908,631 | 653,464 | 3,562,095 | 104,082 |
| (1,662,356) | 917,883 | (744,473) | 56,994 |
| 2,772,451 | 3,081,888 | 5,854,339 | 59,895 |
| \$ 1,110,095 | 3,999,771 | 5,109,866 | 116,889 |
| \$ - | 1,212,547 | 1,212,547 | - |
| 779,959 | 363,144 | 1,143,103 | - |
| 491,907 | - | 491,907 | 116,889 |
| (161,771) | 2,424,080 | 2,262,309 | - |
| \$ 1,110,095 | 3,999,771 | 5,109,866 | 116,889 |

City of Clarinda

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

As of and for the year ended June 30, 2005

| | General | Special Revenue Road Use Tax | Debt Service |
|---|--------------|------------------------------------|-----------------|
| Receipts: | | | |
| Property tax | \$ 893,628 | - | 336,904 |
| Tax increment financing | - | - | - |
| Other city tax | 33,369 | - | 11,263 |
| Licenses and permits | 9,512 | - | - |
| Use of money and property | 7,975 | - | 52,499 |
| Intergovernmental | 100,685 | 473,100 | - |
| Charges for service | 264,716 | - | - |
| Miscellaneous | 101,724 | - | 1,624 |
| Total receipts | 1,411,609 | 473,100 | 402,290 |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | 822,311 | - | - |
| Public works | 57,547 | 356,797 | - |
| Health and social services | 33,371 | - | - |
| Culture and recreation | 777,350 | - | - |
| Community and economic development | 136,940 | - | - |
| General government | 369,966 | - | - |
| Debt service | - | - | 2,227,629 |
| Capital projects | - | - | - |
| Total disbursements | 2,197,485 | 356,797 | 2,227,629 |
| Excess (deficiency) of receipts over (under) disbursements | (785,876) | 116,303 | (1,825,339) |
| Other financing sources (uses): | | | |
| General obligation note proceeds (net of \$20,710 discount) | 8,747 | - | 35,211 |
| General obligation project notes redeemed | - | - | - |
| Sale of capital assets | 15,450 | - | - |
| Operating transfers in | 500,473 | - | 227,971 |
| Operating transfers out | - | - | - |
| Total other financing sources (uses) | 524,670 | - | 263,182 |
| Net change in cash balances | (261,206) | 116,303 | (1,562,157) |
| Cash balances beginning of year, as restated | 99,435 | 51,498 | 1,562,157 |
| Cash balances end of year | \$ (161,771) | 167,801 | - |
| Cash Basis Fund Balances | | | |
| Unreserved, undesignated, reported in: | | | |
| General fund | \$ (161,771) | - | - |
| Special revenue funds | - | 167,801 | - |
| Capital projects fund | - | - | - |
| Permanent funds | - | - | - |
| Total cash basis fund balances | \$ (161,771) | 167,801 | - |

See notes to financial statements.

| Capital Projects | Nonmajor | Total |
|---------------------|-----------|-------------|
| - | 356,228 | 1,586,760 |
| - | 11,685 | 11,685 |
| - | 350,371 | 395,003 |
| - | - | 9,512 |
| - | 2,401 | 62,875 |
| - | - | 573,785 |
| - | - | 264,716 |
| 793,695 | 37,910 | 934,953 |
| 793,695 | 758,595 | 3,839,289 |
| - | 118,046 | 940,357 |
| - | 26,672 | 441,016 |
| - | - | 33,371 |
| - | 66,614 | 843,964 |
| - | - | 136,940 |
| - | 16,283 | 386,249 |
| 2,903 | - | 2,230,532 |
| 1,384,965 | - | 1,384,965 |
| 1,387,868 | 227,615 | 6,397,394 |
| (594,173) | 530,980 | (2,558,105) |
| 1,065,332 | - | 1,109,290 |
| (360,000) | - | (360,000) |
| - | - | 15,450 |
| 179,058 | - | 907,502 |
| (17,631) | (758,862) | (776,493) |
| 866,759 | (758,862) | 895,749 |
| 272,586 | (227,882) | (1,662,356) |
| 507,373 | 551,988 | 2,772,451 |
| 779,959 | 324,106 | 1,110,095 |
| - | - | (161,771) |
| - | 163,440 | 331,241 |
| 779,959 | - | 779,959 |
| - | 160,666 | 160,666 |
| 779,959 | 324,106 | 1,110,095 |

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, 2005

| | Enterprise Funds | | | |
|--|--|-----------|-------------|-------------|
| | Clarinda Regional Health Center and Affiliate | Water | Sewer | Total |
| Operating receipts: | | | | |
| Charges for service | \$ 14,525,068 | 834,475 | 632,493 | 15,992,036 |
| Miscellaneous | 131,973 | 6,160 | 8,411 | 146,544 |
| Total operating receipts | 14,657,041 | 840,635 | 640,904 | 16,138,580 |
| Operating disbursements: | | | | |
| Business type activities | 12,828,912 | 624,818 | 338,596 | 13,792,326 |
| Excess of operating receipts over operating disbursements | 1,828,129 | 215,817 | 302,308 | 2,346,254 |
| Non-operating receipts (disbursements): | | | | |
| Unrestricted contributions | 195,317 | - | - | 195,317 |
| Interest on investments | 31,728 | 1,022 | 41,606 | 74,356 |
| Acquisition of capital assets | (101,005) | (396,443) | - | (497,448) |
| Debt service | (440,012) | (22,512) | (1,121,863) | (1,584,387) |
| Total non-operating receipts (disbursements) | (313,972) | (417,933) | (1,080,257) | (1,812,162) |
| Excess (deficiency) of receipts over (under) disbursements | 1,514,157 | (202,116) | (777,949) | 534,092 |
| Other financing sources (uses): | | | | |
| Water revenue loan agreement anticipation project note proceeds (net of \$5,200 discount) | - | 514,800 | - | 514,800 |
| Operating transfers in | - | 1,535 | - | 1,535 |
| Operating transfers out | - | (68,509) | (64,035) | (132,544) |
| Total other financing sources (uses) | - | 447,826 | (64,035) | 383,791 |
| Net change in cash balances | 1,514,157 | 245,710 | (841,984) | 917,883 |
| Cash balances beginning of year | 1,479,399 | 273,442 | 1,329,047 | 3,081,888 |
| Cash balances end of year | \$ 2,993,556 | 519,152 | 487,063 | 3,999,771 |
| Cash Basis Fund Balances | | | | |
| Reserved for debt service | \$ 849,619 | - | 362,929 | 1,212,548 |
| Reserved for capital project | - | 339,985 | 23,159 | 363,144 |
| Unreserved | 2,143,937 | 179,167 | 100,975 | 2,424,079 |
| Total cash basis fund balances | \$ 2,993,556 | 519,152 | 487,063 | 3,999,771 |

See notes to financial statements.

City of Clarinda

Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds

As of and for the year ended June 30, 2005

| | COBRA Insurance | Utility Payments | Total |
|---------------------------------|--------------------|---------------------|--------|
| Cash balances beginning of year | \$ 530 | (1) | 529 |
| Additions: | | | |
| Miscellaneous | 4,540 | 76,123 | 80,663 |
| Deductions: | | | |
| Non-program | 5,070 | 76,122 | 81,192 |
| Cash balances end of year | \$ - | - | - |

See notes to financial statements.

City of Clarinda

Notes to Financial Statements

June 30, 2005

(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 the 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 and the Clarinda 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 Clarinda Library Foundation and Clarinda Fire and Rescue were organized under Chapter 504A of the Code of Iowa as non-profit corporations. The Foundation and Fire and Rescue collect donations which are 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 have been reported as Special Revenue Funds 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 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 two categories:

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

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

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

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statement. 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 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 Special Revenue, Road Use Tax Fund is used to account for road construction and maintenance.

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 the Clarinda Regional Health Center and Affiliate.

The Water Fund accounts 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.

Additionally, the City reports the following funds:

Fiduciary Funds – Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, other governmental units and/or other funds.

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.

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 incurred, 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.

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, 2005, disbursements exceeded the amounts budgeted in the debt service and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 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 Foundation's investments are included in the Health Center's financial statements.

(3) Long-Term 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 |
| 2006 | \$ 520,000 | 152,165 | 175,000 | 37,702 | 695,000 | 189,867 |
| 2007 | 535,000 | 140,807 | 175,000 | 32,105 | 710,000 | 172,912 |
| 2008 | 550,000 | 127,285 | 185,000 | 26,028 | 735,000 | 153,313 |
| 2009 | 480,000 | 111,485 | 190,000 | 20,385 | 670,000 | 131,870 |
| 2010 | 500,000 | 96,245 | 195,000 | 14,210 | 695,000 | 110,455 |
| 2011 - 2015 | 1,780,000 | 234,078 | 205,000 | 7,482 | 1,985,000 | 241,560 |
| 2016 - 2020 | 245,000 | 21,460 | - | - | 245,000 | 21,460 |
| Total | \$ 4,610,000 | 883,525 | 1,125,000 | 137,912 | 5,735,000 | 1,021,437 |

On April 24, 2003, the City issued \$360,000 of general obligation corporate purpose loan agreement anticipation project notes for street improvements and utility work at 2.25% interest per annum. The notes mature on January 1, 2006 and interest is payable semiannually on October 1 and April 1 commencing October 1, 2003. The notes were redeemed August 10, 2004 using a portion of the general obligation notes sold on August 1, 2004.

On January 12, 2005, the City issued \$520,000 of water revenue loan agreement anticipation project notes for water improvements at 2.75% interest per annum. The notes mature on April 1, 2006 and interest is payable on July 1, 2005 and at maturity. As of June 30, 2005, none of the notes had been redeemed.

The resolutions providing for the issuance of the sewer 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 a 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 a sewer reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying principal at maturity or interest on the notes when there are insufficient funds in the sewer revenue note sinking account.
- (d) Additional monthly transfers shall also be made to a 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 are 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.

The City has not complied with the requirements of the sewer revenue note resolutions. The resolution requires the City to make monthly transfers to the sewer reserve account in the amount equal to 25% of the sewer sinking account requirements. The City transferred \$30,000 to the sewer reserve account during fiscal year 2005, but the required amount was \$52,834.

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

A schedule of long-term debt obligations at June 30, 2005 for the Health Center is as follows:

| | <u>Amount</u> |
|--|---------------------|
| Health Center Revenue Bonds, 1997 Series A | \$ 575,324 |
| Health Center Revenue Bonds, 1997 Series B | 968,245 |
| Capital Leases | 646,732 |
| Total | <u>\$ 2,190,301</u> |

The Health Center revenue bonds, 1997 Series A require monthly payments of principal and interest. The interest rate is adjustable every five years beginning in October 2002. The interest rate at June 30, 2005 was 3.65% per annum. Principal and interest payments are due through September 2012.

The Health Center revenue bonds, 1997 Series B require monthly payments of principal and interest. The interest rate is adjustable every five years beginning in October 2003. The interest rate at June 30, 2005 was 3.70%. 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 of 40% of the outstanding bond balance, but not less than \$500,000, in Board-designated funds at all times. In connection with the Health Center Revenue Bonds, 1997 Series A and B, the Health Center is required to comply with specific covenants outlined within the loan agreement. The Health Center was in compliance with the covenants or appropriate waivers were obtained on January 25, 2006.

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 5.55% per annum. 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> June 30, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|---------------------|-----------------|------------------|
| 2006 | \$ 346,000 | 82,000 | 428,000 |
| 2007 | 350,000 | 67,000 | 417,000 |
| 2008 | 357,000 | 52,000 | 409,000 |
| 2009 | 297,000 | 38,600 | 335,600 |
| 2010 | 222,000 | 27,000 | 249,000 |
| 2011-2014 | 618,301 | 22,000 | 640,301 |
| Total | <u>\$ 2,190,301</u> | <u>288,600</u> | <u>2,478,901</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.

Most plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% 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, 2005, 2004 and 2003 were \$77,375, \$85,917 and \$82,062, respectively, equal to the required contributions for each year. The Health Center's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were approximately \$324,000, \$305,300 and \$275,000, respectively, equal to the required contributions for each year.

(5) 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, 2005, primarily relating to the General Fund, is as follows:

| Type of Benefit | Amount |
|-----------------|------------------|
| Vacation | \$ 76,000 |
| Sick leave | <u>16,000</u> |
| Total | <u>\$ 92,000</u> |

This liability has been computed based on rates of pay in effect at June 30, 2005.

The Health Center's liability for earned compensated absences payable to employees is approximately \$293,000 at June 30, 2005.

(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 2% per annum interest on the unpaid balance. The balance outstanding on this loan at June 30, 2005 was \$64,922. Annual debt service requirements to maturity are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|------------------|--------------|---------------|
| 2006 | \$ 21,213 | 1,299 | 22,512 |
| 2007 | 21,638 | 874 | 22,512 |
| 2008 | 22,071 | 441 | 22,512 |
| Total | <u>\$ 64,922</u> | <u>2,614</u> | <u>67,536</u> |

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

| Transfer to | Transfer from | Amount |
|------------------|------------------------|-------------------|
| General | Special Revenue: | |
| | Employee Benefits | \$ 154,823 |
| | Emergency | 26,791 |
| | Local Option Sales Tax | 193,859 |
| | Enterprise: | |
| | Water | 62,500 |
| | Sewer | 62,500 |
| | | <u>500,473</u> |
| Debt Service | Special Revenue: | |
| | Local Option Sales Tax | 210,340 |
| | Capital Projects | 17,631 |
| | | <u>227,971</u> |
| Capital Projects | Special Revenue: | |
| | Local Option Sales Tax | 173,049 |
| | Enterprise: | |
| | Water | 6,009 |
| | | <u>179,058</u> |
| Enterprise: | Enterprise: | |
| Water | Sewer | 1,535 |
| | | <u>1,535</u> |
| Total | | <u>\$ 909,037</u> |

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

(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 509 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 contributions to the Pool for the year ended June 30, 2005 were \$48,550.

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 \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage 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 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, 2005, 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, 2005 were approximately \$586,000.

(9) Subsequent Events

In September 2005, the City awarded a construction contract for the Clarinda Water Treatment Plant for \$9,050,000 and issued \$6,500,000 of water revenue bonds to pay the costs of the treatment plant.

(10) Restatement

The beginning balance of the General Fund was restated from \$164,684 to \$99,435 to separately report the Clarinda Fire and Rescue Fund balance of \$65,249 as a blended component unit.

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, 2005

| | Governmental Funds Actual | Proprietary Funds Actual | Less Funds not Required to be Budgeted |
|---|---------------------------------|--------------------------------|---|
| Receipts: | | | |
| Property tax | \$ 1,586,760 | - | - |
| Tax increment financing | 11,685 | - | - |
| Other city tax | 395,003 | - | - |
| Licenses and permits | 9,512 | - | - |
| Use of money and property | 62,875 | 74,356 | 583 |
| Intergovernmental | 573,785 | - | - |
| Charges for service | 264,716 | 15,992,036 | - |
| Miscellaneous | 934,953 | 341,861 | 37,910 |
| Total receipts | 3,839,289 | 16,408,253 | 38,493 |
| Disbursements: | | | |
| Public safety | 940,357 | - | 35,348 |
| Public works | 441,016 | - | - |
| Health and social services | 33,371 | - | - |
| Culture and recreation | 843,964 | - | 4,307 |
| Community and economic development | 136,940 | - | - |
| General government | 386,249 | - | - |
| Debt service | 2,230,532 | - | - |
| Capital projects | 1,384,965 | - | - |
| Business type activities | - | 15,874,161 | - |
| Total disbursements | 6,397,394 | 15,874,161 | 39,655 |
| Excess (deficiency) of receipts over (under) disbursements | (2,558,105) | 534,092 | (1,162) |
| Other financing sources, net | 895,749 | 383,791 | - |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | (1,662,356) | 917,883 | (1,162) |
| Balances beginning of year | 2,772,451 | 3,081,888 | 131,767 |
| Balances end of year | \$ 1,110,095 | 3,999,771 | 130,605 |

See accompanying independent auditor's report.

| Total | Budgeted Amounts | | Final to Total Variance |
|-------------|------------------|------------|-------------------------------|
| | Original | Final | |
| 1,586,760 | 1,576,644 | 1,576,644 | 10,116 |
| 11,685 | 9,000 | 9,000 | 2,685 |
| 395,003 | 378,816 | 378,816 | 16,187 |
| 9,512 | 9,000 | 9,000 | 512 |
| 136,648 | 54,000 | 54,000 | 82,648 |
| 573,785 | 475,000 | 537,000 | 36,785 |
| 16,256,752 | 13,631,450 | 17,331,450 | (1,074,698) |
| 1,238,904 | 150,995 | 150,995 | 1,087,909 |
| 20,209,049 | 16,284,905 | 20,046,905 | 162,144 |
| 905,009 | 969,698 | 969,698 | 64,689 |
| 441,016 | 474,525 | 474,525 | 33,509 |
| 33,371 | 11,329,000 | 14,329,000 | 14,295,629 |
| 839,657 | 835,050 | 840,050 | 393 |
| 136,940 | 153,250 | 153,250 | 16,310 |
| 386,249 | 351,500 | 386,500 | 251 |
| 2,230,532 | 346,030 | 446,443 | (1,784,089) |
| 1,384,965 | 1,139,995 | 1,787,495 | 402,530 |
| 15,874,161 | 1,269,137 | 1,519,137 | (14,355,024) |
| 22,231,900 | 16,868,185 | 20,906,098 | (1,325,802) |
| (2,022,851) | (583,280) | (859,193) | (1,163,658) |
| 1,279,540 | 700,000 | 1,962,713 | (683,173) |
| (743,311) | 116,720 | 1,103,520 | (1,846,831) |
| 5,722,572 | 6,064,713 | 6,064,713 | (342,141) |
| 4,979,261 | 6,181,433 | 7,168,233 | (2,188,972) |

City of Clarinda

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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

Formal and legal budgetary control is based upon 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, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the 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, two budget amendments increased budgeted disbursements by \$4,037,913. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the debt service and business type activities functions.

Other Supplementary Information

City of Clarinda

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

As of and for the year ended June 30, 2005

| | Local | | | Special | |
|---|-----------|-----------|---------------|-----------|----------|
| | Option | | | | |
| | Sales | Employee | Tax Increment | | Library |
| | Tax | Benefits | Financing | Emergency | Memorial |
| Receipts: | | | | | |
| Property tax | \$ - | 330,943 | - | 25,285 | - |
| Tax increment financing | - | - | 11,685 | - | - |
| Other city tax | 338,330 | 11,190 | - | 851 | - |
| Use of money and property | - | - | - | - | 1,818 |
| Miscellaneous | - | - | - | - | - |
| Total receipts | 338,330 | 342,133 | 11,685 | 26,136 | 1,818 |
| Disbursements: | | | | | |
| Operating: | | | | | |
| Public safety | - | 82,698 | - | - | - |
| Public works | - | 26,672 | - | - | - |
| Culture and recreation | - | 62,307 | - | - | - |
| General government | - | 16,283 | - | - | - |
| Total disbursements | - | 187,960 | - | - | - |
| Excess (deficiency) of receipts over (under) disbursements | 338,330 | 154,173 | 11,685 | 26,136 | 1,818 |
| Other financing uses: | | | | | |
| Operating transfers out | (577,248) | (154,823) | - | (26,791) | - |
| Net change in cash balances | (238,918) | (650) | 11,685 | (655) | 1,818 |
| Cash balances beginning of year, as restated | 238,918 | 650 | - | 655 | 19,332 |
| Cash balances end of year | \$ - | - | 11,685 | - | 21,150 |
| Cash Basis Fund Balances | | | | | |
| Unreserved: | | | | | |
| Special revenue funds | \$ - | - | 11,685 | - | 21,150 |
| Permanent funds | - | - | - | - | - |
| Total cash basis fund balances | \$ - | - | 11,685 | - | 21,150 |

See accompanying independent auditor's report.

| Revenue | | Permanent | | | |
|--------------------|--------------------------|-------------------------|-----------------|--|-----------|
| Library Foundation | Clarinda Fire and Rescue | Cemetery Perpetual Care | Library Bequest | | Total |
| - | - | - | - | | 356,228 |
| - | - | - | - | | 11,685 |
| - | - | - | - | | 350,371 |
| 347 | 236 | - | - | | 2,401 |
| 364 | 37,546 | - | - | | 37,910 |
| 711 | 37,782 | - | - | | 758,595 |
| - | 35,348 | - | - | | 118,046 |
| - | - | - | - | | 26,672 |
| 4,307 | - | - | - | | 66,614 |
| - | - | - | - | | 16,283 |
| 4,307 | 35,348 | - | - | | 227,615 |
| (3,596) | 2,434 | - | - | | 530,980 |
| - | - | - | - | | (758,862) |
| (3,596) | 2,434 | - | - | | (227,882) |
| 66,518 | 65,249 | 60,666 | 100,000 | | 551,988 |
| 62,922 | 67,683 | 60,666 | 100,000 | | 324,106 |
| 62,922 | 67,683 | - | - | | 163,440 |
| - | - | 60,666 | 100,000 | | 160,666 |
| 62,922 | 67,683 | 60,666 | 100,000 | | 324,106 |

City of Clarinda
Schedule of Indebtedness
Year ended June 30, 2005

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|--|---------------|----------------|--------------------------|
| City: | | | |
| General obligation notes: | | | |
| General corporate purpose | Jul 1, 1994 | 4.40-5.50% | \$ 260,000 |
| Essential corporate purpose | May 1, 1997 | 4.50-5.65 | 2,855,000 |
| Refunding | Apr 1, 2003 | 1.80-3.65 | 2,855,000 |
| Library | Aug 1, 2003 | 1.50-4.40 | 1,000,000 |
| Corporate purpose | Aug 1, 2004 | 3.40-4.45 | 1,130,000 |
| Total | | | |
| Revenue notes: | | | |
| 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 |
| Total | | | |
| 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 |
| Water revenue loan agreement anticipation project notes | Jan 12, 2005 | 2.75% | \$ 520,000 |
| Clarinda Regional Health Center and Affiliate: | | | |
| Revenue bonds 1997 Series A | | | |
| Revenue bonds 1997 Series B | | | |
| Capital leases: | | | |
| Equipment | | | |
| Total | | | |

See accompanying independent auditor's report.

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|
| 40,000 | - | 40,000 | - | 2,200 |
| 1,625,000 | - | 1,625,000 | - | 88,823 |
| 2,855,000 | - | 265,000 | 2,590,000 | 80,730 |
| 945,000 | - | 55,000 | 890,000 | 32,218 |
| - | 1,130,000 | - | 1,130,000 | 37,458 |
| \$ 5,465,000 | 1,130,000 | 1,985,000 | 4,610,000 | 241,429 |
| 935,000 | - | 935,000 | - | 55,535 |
| 270,000 | - | 90,000 | 180,000 | 10,800 |
| 945,000 | - | - | 945,000 | 30,277 |
| \$ 2,150,000 | - | 1,025,000 | 1,125,000 | 96,612 |
| 85,719 | - | 20,797 | 64,922 | 1,715 |
| 360,000 | - | 360,000 | - | 2,903 |
| - | 520,000 | - | 520,000 | - |
| \$ 643,157 | - | 67,833 | 575,324 | 25,950 |
| 1,066,447 | - | 98,202 | 968,245 | 41,150 |
| 399,246 | 409,584 | 162,098 | 646,732 | 44,779 |
| \$ 2,108,850 | 409,584 | 328,133 | 2,190,301 | 111,879 |

City of Clarinda

Note Maturities

June 30, 2005

| Year Ending June 30, | General Obligation Notes | | | | | | |
|----------------------------|--------------------------|---------------------|--------------------|-------------------|--------------------|---------------------|------------------|
| | Refunding | | Library | | Corporate Purpose | | Total |
| | Issued Apr 1, 2003 | | Issued Aug 1, 2003 | | Issued Aug 1, 2004 | | |
| | Interest | | Interest | | Interest | | |
| Rates | Amount | Rates | Amount | Rates | Amount | | |
| 2006 | 2.20% | \$ 465,000 | 2.05% | \$ 55,000 | | \$ - | 520,000 |
| 2007 | 2.55 | 475,000 | 2.35 | 60,000 | | - | 535,000 |
| 2008 | 2.90 | 490,000 | 2.65 | 60,000 | | - | 550,000 |
| 2009 | 3.10 | 270,000 | 2.95 | 60,000 | 3.40% | 150,000 | 480,000 |
| 2010 | 3.30 | 285,000 | 3.15 | 65,000 | 3.60 | 150,000 | 500,000 |
| 2011 | 3.50 | 300,000 | 3.35 | 65,000 | 3.80 | 155,000 | 520,000 |
| 2012 | 3.65 | 305,000 | 3.55 | 65,000 | 4.00 | 160,000 | 530,000 |
| 2013 | | - | 3.70 | 70,000 | 4.15 | 165,000 | 235,000 |
| 2014 | | - | 3.85 | 70,000 | 4.30 | 175,000 | 245,000 |
| 2015 | | - | 4.00 | 75,000 | 4.45 | 175,000 | 250,000 |
| 2016 | | - | 4.20 | 80,000 | | - | 80,000 |
| 2017 | | - | 4.30 | 80,000 | | - | 80,000 |
| 2018 | | - | 4.40 | 85,000 | | - | 85,000 |
| Total | | <u>\$ 2,590,000</u> | | <u>\$ 890,000</u> | | <u>\$ 1,130,000</u> | <u>4,610,000</u> |

See accompanying independent auditor's report.

| Revenue Notes | | | | | |
|----------------------------|--|-------------------|---------------------------------------|-------------------|------------------|
| Year Ending June 30, | Sewer Refunding Capital Loan Issued May 1, 2002 | | Sewer Refunding Issued Apr 1, 2003 | | Total |
| | Interest Rates | Amount | Interest Rates | Amount | |
| 2006 | 4.00% | \$ 90,000 | 2.35% | \$ 85,000 | 175,000 |
| 2007 | 4.25 | 90,000 | 2.65 | 85,000 | 175,000 |
| 2008 | | - | 3.05 | 185,000 | 185,000 |
| 2009 | | - | 3.25 | 190,000 | 190,000 |
| 2010 | | - | 3.45 | 195,000 | 195,000 |
| 2011 | | - | 3.65 | 205,000 | 205,000 |
| Total | | <u>\$ 180,000</u> | | <u>\$ 945,000</u> | <u>1,125,000</u> |

Schedule 4

City of Clarinda

Schedule of Receipts by Sources and Disbursements by Function -
All Governmental Funds

For the Last Three Years

| | 2005 | 2004 | 2003 |
|------------------------------------|--------------|-----------|-----------|
| Receipts: | | | |
| Property tax | \$ 1,586,760 | 1,475,004 | 1,467,847 |
| Tax increment financing | 11,685 | - | - |
| Other city tax | 395,003 | 403,456 | 358,398 |
| Licenses and permits | 9,512 | 8,948 | 9,187 |
| Use of money and property | 62,875 | 44,514 | 31,929 |
| Intergovernmental | 573,785 | 726,244 | 575,731 |
| Charges for service | 264,716 | 256,303 | 311,380 |
| Miscellaneous | 934,953 | 710,787 | 483,361 |
| | <hr/> | | |
| Total | \$ 3,839,289 | 3,625,256 | 3,237,833 |
| | <hr/> | | |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | \$ 940,357 | 921,658 | 968,317 |
| Public works | 441,016 | 467,568 | 490,103 |
| Health and social services | 33,371 | 3,500 | - |
| Culture and recreation | 843,964 | 842,821 | 999,046 |
| Community and economic development | 136,940 | 160,694 | 134,748 |
| General government | 386,249 | 328,775 | 94,155 |
| Debt service | 2,230,532 | 1,870,911 | 559,977 |
| Capital projects | 1,384,965 | 1,828,052 | 345,739 |
| | <hr/> | | |
| Total | \$ 6,397,394 | 6,423,979 | 3,592,085 |
| | <hr/> | | |

See accompanying independent auditor's report



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 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, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 24, 2005, except for Note 3 as to which the date is January 25, 2006. Our report expressed an 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing 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 opinions on the financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud 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.

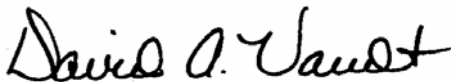
Compliance and Other Matters

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 and other matters, 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 that are described in the accompanying Schedule of Findings.

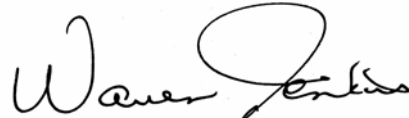
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions 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.

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

October 24, 2005, except for Note 3
as to which the date is January 25, 2006

City of Clarinda
Schedule of Findings
Year ended June 30, 2005

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

- (A) Information Systems – The City does not have written policies for requiring password changes because software does not require the user to change log-ins/passwords periodically. Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop a written policy addressing the above item to improve the City’s control over computer based systems. A written disaster recovery plan should be developed.

Response – We will adopt written policies for these items.

Conclusion – Response accepted.

City of Clarinda

Schedule of Findings

Year ended June 30, 2005

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, 2005.
- (2) Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the debt service and business type activities functions. The Clarinda Regional Health Center and Affiliate Fund was budgeted under the health and social services function instead of the business type activities function. Chapter 384.20 of the Code of Iowa states, in part, public monies may not be expended or encumbered except under an annual or continuing appropriation. Also, the publication for the budget amendment adopted November 23, 2004 did not comply with Chapter 384.16(3) of the Code of Iowa which states, in part, the notice of public hearing is to be published not less than 10 nor more than 20 days before the hearing date. The publication was dated November 17, 2004.

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. Budget amendments should comply with Chapter 384.16(3) of the Code of Iowa.

Response – We will amend in sufficient amounts in the future and will include the hospital activity in the business type activity.

Conclusion – Response accepted.

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

| Paid to | Purpose | Amount |
|------------------------------|-----------------|--------|
| Clarinda Chamber of Commerce | Golf tournament | \$ 340 |

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

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

Response – We will document public purposes for future expenses of this kind.

Conclusion – Response accepted.

City of Clarinda

Schedule of Findings

Year ended June 30, 2005

- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – Business transactions between the City and City officials or employees were detailed as follows:

| Name, Title, and Business Connection | Transaction Description | Amount |
|---|----------------------------|--------|
| Frank Snyder, Mayor, Owner of Snyder Auto Body | Gas for shop | \$ 75 |
| Geary Kendall, Council Member, Owner of Kendall Lawn & Landscaping | Clean up | 187 |

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Mayor and Council Member do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year.

- (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. However, the City does not maintain a register of investments.

Recommendation – The City should maintain an investment register for all investment transactions which include reference numbers, purchase and maturity dates, interest rates, purchasing fund and interest received on each investment.

Response – The City will establish and maintain an investment register.

Conclusion – Response accepted.

- (9) Revenue Notes – The City has not complied with the requirements of the sewer revenue note resolutions. The resolutions require the City to make monthly transfers to the sewer reserve account in the amount equal to 25% of the sewer sinking account requirements. The City transferred \$30,000 to the sewer reserve account during fiscal year 2005, but the required amount was \$52,834.

Recommendation – The City should ensure that transfers comply with the revenue note resolution requirements.

City of Clarinda

Schedule of Findings

Year ended June 30, 2005

Response – The City will transfer the necessary \$22,834 to the Sewer Reserve Fund and will also establish a monthly transfer of \$4,500 into the Sewer Reserve Fund and out of the Sewer Operation Revenue Fund.

Conclusion – Response accepted.

- (10) Financial Condition – The General Fund had a deficit balance at June 30, 2005 of \$161,771.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – We have increased income sources for the General Fund and reduced services over the years to cut expenses.

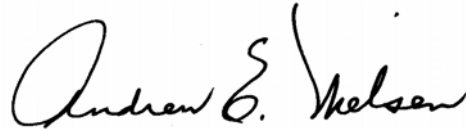
Conclusion – Response accepted.

City of Clarinda

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Paul F. Kearney, CGFM, Senior Auditor
Donald J. Lewis, 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