



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

April 11, 2005

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$18,670,433 for the year ended June 30, 2004, a 10 percent decrease from 2003. The receipts included \$1,523,317 in property tax, \$13,877,191 from charges for service, \$618,709 from operating grants, contributions and restricted interest, \$765,310 from capital grants, contributions and restricted interest, \$355,145 from local option sales tax, \$69,375 from unrestricted interest on investments, \$981,500 from note proceeds and \$479,886 from other general receipts.

Disbursements for the year totaled \$19,854,554, a 17 percent increase from the prior year, and included \$1,870,911 for debt service, \$1,828,052 for capital projects and \$921,658 for public safety. Also, disbursements for business type activities totaled \$13,430,575.

The significant decrease in receipts is due primarily to note proceeds of \$4,096,400 in the prior year. The significant increase in disbursements is due primarily to debt service payments and capital projects.

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

#

CITY OF CLARINDA

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

JUNE 30, 2004

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City of Clarinda

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
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
John Clark	Hospital Board of Trustees, Chairman	Jan 2006
Dallas Glenn	Hospital Board of Trustees, Vice Chairman	Jan 2004
Joy Tunnickliff	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	Chief Executive Officer	Indefinite
Gary Walter	City Manager/Clerk	Indefinite
Eleanor Moore	Treasurer	Indefinite
Sanford Turner	Attorney	Jan 2004
(After January 2004)		
Frank A. Snyder	Mayor	Jan 2006
Rod Nester	Mayor Pro tem	Jan 2006
Tom Farrens	Council Member	Jan 2006
Gordon Kokenge	Council Member	Jan 2008
Billy C. McComb	Council Member	Jan 2008
Geary Kendall	Council Member	Jan 2008
John Clark	Hospital Board of Trustees, Chairman	Jan 2006
Dallas Glenn	Hospital Board of Trustees, Vice Chairman	Jan 2008
Joy Tunnickliff	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/Clerk	Indefinite
Eleanor Moore	Treasurer	Indefinite
Sanford Turner	Attorney	Jan 2004

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, 2004, 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 48% of the cash basis net assets and 90% 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, 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 our audit and the report of other auditors provide a reasonable basis for our opinions.

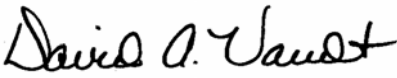
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.


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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Clarinda as of June 30, 2004, 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 20, 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, contracts and grants. 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, which consisted 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. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (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 20, 2004

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, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2004 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 29%, or approximately \$1,863,000, from fiscal 2003 to fiscal 2004. Note proceeds decreased \$2,186,000.
- Disbursements of the City's governmental activities increased 79%, or approximately \$2,832,000, in fiscal 2004 from fiscal 2003. Debt service and capital projects disbursements increased approximately \$1,311,000 and \$1,482,000, respectively.
- The City's governmental activities cash basis net assets decreased 28%, or approximately \$1,089,000, from June 30, 2003 to June 30, 2004, due primarily to debt service payments and capital projects.

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, 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 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. The Clarinda Regional Health Center and Affiliate and sewer funds are 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 Cities own programs. The fiduciary funds include Agency Funds to account for COBRA insurance and utility payments.

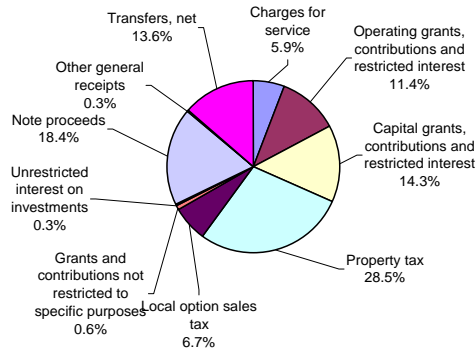
The required financial statement for fiduciary funds is a statement of changes in fiduciary assets and liabilities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

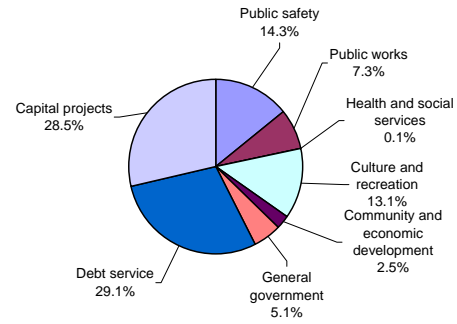
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from \$3,861,925 to \$2,772,451. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Years ended June 30,	
	2004	2003
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 313,581	283,916
Operating grants, contributions and restricted interest	609,727	645,534
Capital grants, contributions and restricted interest	765,310	342,013
General receipts:		
Property tax	1,523,317	1,524,053
Local option sales tax	355,145	302,192
Grants and contributions not restricted to specific purposes	29,908	101,987
Unrestricted interest on investments	14,501	24,773
Note proceeds	981,500	3,167,075
Other general receipts	16,516	81,304
Transfers, net	725,000	155,000
Total receipts and transfers	<u>5,334,505</u>	<u>6,627,847</u>
Disbursements:		
Public safety	921,658	968,317
Public works	467,568	490,103
Health and social services	3,500	-
Culture and recreation	842,821	999,046
Community and economic development	160,694	134,748
General government	328,775	94,155
Debt service	1,870,911	559,977
Capital projects	1,828,052	345,739
Total disbursements	<u>6,423,979</u>	<u>3,592,085</u>
Increase (decrease) in cash basis net assets	(1,089,474)	3,035,762
Cash basis net assets beginning of year	<u>3,861,925</u>	<u>826,163</u>
Cash basis net assets end of year	<u>\$ 2,772,451</u>	<u>3,861,925</u>

Receipts by Source



Disbursements by Function



The City's total receipts and transfers for governmental activities decreased by 20%, or \$1,293,342. The total cost of all programs and services increased by approximately \$2,832,000, or 79%, with no new programs added this year. The significant decrease in receipts was primarily the result of proceeds received from the issuance of general obligation refunding notes in the prior year. The significant increase in disbursements was primarily due to the use of note proceeds to refund one issue in the current year and disbursements for the library project.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30,	
	2004	2003
Receipts:		
Program receipts:		
Charges for service:		
Clarinda Regional Health Center and Affiliate	\$ 12,157,875	11,382,841
Sewer	612,274	690,748
Water	793,461	766,293
General receipts:		
Unrestricted interest on investments	54,874	46,456
Note proceeds	-	929,325
Other general receipts	442,444	476,067
Total receipts	14,060,928	14,291,730
Disbursements and transfers:		
Clarinda Regional Health Center and Affiliate	12,220,986	12,009,667
Sewer	517,450	634,461
Water	692,139	722,144
Transfers	725,000	155,000
Total disbursements and transfers	14,155,575	13,521,272
Increase (decrease) in cash basis net assets	(94,647)	770,458
Cash basis net assets beginning of year	3,176,535	2,406,077
Cash basis net assets end of year	\$ 3,081,888	3,176,535

Total business type activities receipts for the fiscal year were \$14,060,928 compared to \$14,291,730 last year. This decrease was due primarily to the receipt of \$929,325 in sewer revenue refunding notes in the prior year. The cash balance decreased by approximately \$95,000 from the prior year because the City transferred \$725,000 from Water and Sewer Funds to the General Fund. Total disbursements and transfers for the fiscal year increased by 5% to a total of \$14,155,575.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Clarinda completed the year, its governmental funds reported a combined fund balance of \$2,772,451, a decrease of approximately \$1,089,000 from last year's total of \$3,861,925. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$129,517 from the prior year to \$164,684. Total receipts decreased by .8% and disbursements increased by 9.7%, but an increase in transfers from Water and Sewer Funds of \$725,000 increased the ending balance.
- The Debt Service Fund cash balance decreased by \$1,296,703 to \$1,562,157 during the fiscal year. This decrease was due to using part of the refunding note proceeds to retire one note issue during the year. The ending balance includes \$1,507,301 of refunding note proceeds to retire another bond issue next year.
- The Capital Projects Fund cash balance increased by \$93,758 to \$507,373 during the fiscal year. The increase was due to funding that remains on hand to complete the library building project. Receipts increased by \$422,297 due to donations for the new library and disbursements increased by \$1,482,313 due to construction of the new library. Also, the City issued general obligation notes of \$981,500.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The cash balance of the Clarinda Regional Health Center and Affiliate Fund increased by \$405,419 to \$1,479,399. Receipts increased by 6.7% due to charges for service and disbursements increased by 1.5%.
- The Sewer Fund cash balance decreased by \$339,881 to \$1,329,047, due primarily to a transfer of funds to the General Fund of \$450,000.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on March 25, 2004 and resulted in an increase in operating disbursements related primarily to health and social services of approximately \$3,029,000 to cover hospital disbursements. The City had sufficient cash balances to absorb these additional costs.

Even with this budget amendment, the City exceeded the budget for the debt service and business type activities functions for the year ended June 30 2004. 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, 2004, the City had approximately \$10,170,000 in bonds and other long-term debt, compared to approximately \$11,222,000 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2004	2003
General obligation notes	\$ 5,465,000	6,115,000
Revenue notes	2,150,000	2,295,000
Loans	85,719	106,109
Interim financing	360,000	360,000
Clarinda Regional Health Center and Affiliate revenue bonds	1,709,604	1,866,275
Clarinda Regional Health Center and Affiliate capital leases	399,246	479,750
Total	\$ 10,169,569	11,222,134

Debt decreased primarily due to paying off one bond issue by using proceeds from refunding notes issued in the 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 \$4,285,719 is below its constitutional debt limit of \$4,675,007.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Clarinda's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees that will be charged for various City activities. One of those factors is the economy. The City's total assessed valuations have increased by 4%. However, funding from the State has decreased due to the State's budget constraints.

Property taxes are expected to increase slightly in FY 2005 as compared to FY 2004. The General Fund balance is expected to increase slightly by the close of FY 2005.

If these estimates are realized, the City's budgeted cash balance is expected to increase by \$116,720 by the close of 2005.

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.

Basic Financial Statements

City of Clarinda

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
Functions / Programs:				
Governmental activities:				
Public safety	\$ 921,658	9,493	86,193	-
Public works	467,568	11,307	473,906	-
Health and social services	3,500	-	-	-
Culture and recreation	842,821	261,725	23,016	-
Community and economic development	160,694	-	-	-
General government	328,775	31,056	9,391	-
Debt service	1,870,911	-	17,221	-
Capital projects	1,828,052	-	-	765,310
Total governmental activities	6,423,979	313,581	609,727	765,310
Business type activities:				
Clarinda Regional Health Center and Affiliate	12,220,986	12,157,875	-	-
Sewer	517,450	612,274	1,280	-
Water	692,139	793,461	7,702	-
Total business type activities	13,430,575	13,563,610	8,982	-
Total primary government	\$ 19,854,554	13,877,191	618,709	765,310
Component unit:				
Clarinda Economic Development Corporation	\$ 78,309	-	-	-
General receipts:				
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				
General obligation note proceeds (net of \$18,500 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				
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	
(825,972)	-	(825,972)	-	-
17,645	-	17,645	-	-
(3,500)	-	(3,500)	-	-
(558,080)	-	(558,080)	-	-
(160,694)	-	(160,694)	-	-
(288,328)	-	(288,328)	-	-
(1,853,690)	-	(1,853,690)	-	-
(1,062,742)	-	(1,062,742)	-	-
(4,735,361)	-	(4,735,361)	-	-
-	(63,111)	(63,111)	-	-
-	96,104	96,104	-	-
-	109,024	109,024	-	-
-	142,017	142,017	-	-
(4,735,361)	142,017	(4,593,344)	-	-
				(78,309)
1,131,330	-	1,131,330	-	-
391,987	-	391,987	-	-
355,145	-	355,145	-	-
29,908	-	29,908	65,972	-
14,501	54,874	69,375	-	-
981,500	-	981,500	-	-
13,767	433,462	447,229	22,417	-
2,749	-	2,749	-	-
725,000	(725,000)	-	-	-
3,645,887	(236,664)	3,409,223	88,389	-
(1,089,474)	(94,647)	(1,184,121)	10,080	-
3,861,925	3,176,535	7,038,460	49,815	-
\$ 2,772,451	3,081,888	5,854,339	59,895	-
\$ 1,562,157	2,159,891	3,722,048	-	-
507,373	-	507,373	-	-
538,237	98,513	636,750	59,895	-
164,684	823,484	988,168	-	-
\$ 2,772,451	3,081,888	5,854,339	59,895	-

City of Clarinda

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

As of and for the year ended June 30, 2004

	General	Debt Service	Capital Projects
Receipts:			
Property tax	\$ 858,269	383,510	-
Other city tax	31,273	8,476	-
Licenses and permits	8,948	-	-
Use of money and property	24,196	17,222	-
Intergovernmental	58,911	-	192,430
Charges for service	256,303	-	-
Miscellaneous	133,266	-	572,880
Total receipts	1,371,166	409,208	765,310
Disbursements:			
Operating:			
Public safety	921,658	-	-
Public works	19,077	-	-
Health and social services	3,500	-	-
Culture and recreation	837,694	-	-
Community and economic development	160,694	-	-
General government	328,775	-	-
Debt service	-	1,870,911	-
Capital projects	-	-	1,828,052
Total disbursements	2,271,398	1,870,911	1,828,052
Excess (deficiency) of receipts over (under) disbursements	(900,232)	(1,461,703)	(1,062,742)
Other financing sources (uses):			
General obligation note proceeds (net of \$18,500 discount)	-	-	981,500
Sale of capital assets	2,749	-	-
Operating transfers in	1,027,000	165,000	175,000
Operating transfers out	-	-	-
Total other financing sources (uses)	1,029,749	165,000	1,156,500
Net change in cash balances	129,517	(1,296,703)	93,758
Cash balances beginning of year	35,167	2,858,860	413,615
Cash balances end of year	\$ 164,684	1,562,157	507,373
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	1,562,157	-
Unreserved:			
Designated for fire department	65,249	-	-
Unreserved, undesignated, reported in:			
General fund	99,435	-	-
Special revenue funds	-	-	-
Capital projects fund	-	-	507,373
Permanent funds	-	-	-
Total cash basis fund balances	\$ 164,684	1,562,157	507,373

See notes to financial statements.

Nonmajor Governmental	
Funds	Total
233,225	1,475,004
363,707	403,456
-	8,948
3,096	44,514
474,903	726,244
-	256,303
4,641	710,787
<u>1,079,572</u>	<u>3,625,256</u>
-	921,658
448,491	467,568
-	3,500
5,127	842,821
-	160,694
-	328,775
-	1,870,911
-	1,828,052
<u>453,618</u>	<u>6,423,979</u>
<u>625,954</u>	<u>(2,798,723)</u>
-	981,500
-	2,749
-	1,367,000
(642,000)	(642,000)
<u>(642,000)</u>	<u>1,709,249</u>
(16,046)	(1,089,474)
<u>554,283</u>	<u>3,861,925</u>
<u>538,237</u>	<u>2,772,451</u>
-	1,562,157
-	65,249
-	99,435
377,571	377,571
-	507,373
<u>160,666</u>	<u>160,666</u>
<u>538,237</u>	<u>2,772,451</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, 2004

	Enterprise Funds			
	Clarinda Regional Health Center and Affiliate	Sewer	Nonmajor - Water	Total
Operating receipts:				
Charges for service	\$ 12,157,875	612,274	793,461	13,563,610
Miscellaneous	432,184	1,554	7,656	441,394
Total operating receipts	12,590,059	613,828	801,117	14,005,004
Operating disbursements:				
Business type activities	11,713,201	258,133	575,901	12,547,235
Excess of operating receipts over operating disbursements	876,858	355,695	225,216	1,457,769
Non-operating receipts (disbursements):				
Rent	-	-	1,050	1,050
Interest on investments	36,346	13,741	4,787	54,874
Acquisition of capital assets	(173,761)	(6,683)	(93,726)	(274,170)
Debt service	(334,024)	(252,634)	(22,512)	(609,170)
Total non-operating receipts (disbursements)	(471,439)	(245,576)	(110,401)	(827,416)
Excess (deficiency) of receipts over (under) disbursements	405,419	110,119	114,815	630,353
Operating transfers out	-	(450,000)	(275,000)	(725,000)
Net change in cash balances	405,419	(339,881)	(160,185)	(94,647)
Cash balances beginning of year	1,073,980	1,668,928	433,627	3,176,535
Cash balances end of year	\$ 1,479,399	1,329,047	273,442	3,081,888
Cash Basis Fund Balances				
Reserved for debt service	\$ 942,507	1,217,384	-	2,159,891
Unreserved	536,892	111,663	273,442	921,997
Total cash basis fund balances	\$ 1,479,399	1,329,047	273,442	3,081,888

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, 2004

	<u>COBRA</u> <u>Insurance</u>	<u>Utility</u> <u>Payments</u>	<u>Total</u>
Cash balances beginning of year	\$ 353	(1)	352
Additions:			
Miscellaneous	13,225	105,178	118,403
Deductions:			
Non-program	13,048	105,178	118,226
Cash balances end of year	<u>\$ 530</u>	<u>(1)</u>	<u>529</u>

See notes to financial statements.

City of Clarinda

Notes to Financial Statements

June 30, 2004

(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 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 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 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 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 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 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 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.

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, 2004, 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, 2004 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, 2004 are as follows:

Type	Carrying Amount	Fair Value
U.S. government securities, held in refunding notes trust escrow account	\$2,386,622	2,429,162

(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
2005	\$ 470,000	264,255	145,000	96,612	615,000	360,867
2006	635,000	238,602	240,000	90,158	875,000	328,760
2007	655,000	206,263	245,000	80,887	900,000	287,150
2008	675,000	170,380	355,000	70,785	1,030,000	241,165
2009	590,000	130,552	370,000	55,197	960,000	185,749
2010 - 2014	2,120,000	241,825	795,000	58,403	2,915,000	300,228
2015 - 2019	320,000	63,930	-	-	320,000	63,930
Total	\$ 5,465,000	1,315,807	2,150,000	452,042	7,615,000	1,767,849

On April 24, 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. The notes mature on April 1, 2006 and interest is payable semiannually on October 1 and April commencing October 1, 2003. As of June 30, 2004, 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 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 specific minimum balances have been accumulated. This account is 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 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 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. Any remaining funds in the escrow account after the payment made on the crossover date shall be remitted to the City. 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, 2004 was \$879,320, consisting of investments in U.S. government securities.

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 were used to advance refund \$1,215,000 of 1996 general obligation notes on the call date of June 1, 2004. 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, 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. Any remaining funds in the escrow account after the payments made on the 1996 and 1997 general obligation notes shall be remitted to the City. As required, the City will report the liability for the 1997 general obligation notes and the general obligation refunding notes until the crossover date. The amount available in the refunding notes trust escrow account at June 30, 2004 was \$1,507,302, consisting of investments in U.S. government securities.

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

A schedule of long-term debt obligations at June 30, 2004 for the Health Center is as follows:

	<u>Amount</u>
Health Center Revenue Bonds, 1997 Series A	\$ 643,157
Health Center Revenue Bonds, 1997 Series B	1,066,447
Capital Leases	<u>399,246</u>
Total	<u>\$ 2,108,850</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, 2004 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. 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 \$685,000 at June 30, 2004.

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, 2004, the Health Center was in compliance with various covenants.

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% per annum. Leases are secured by equipment.

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

Year Ending June 30,	Principal	Interest	Total
2005	\$ 260,817	108,752	369,569
2006	259,610	93,068	352,678
2007	263,697	78,645	342,342
2008	271,931	66,660	338,591
2009	209,371	54,311	263,682
2010-2014	843,424	97,404	940,828
Total	\$ 2,108,850	498,840	2,607,690

(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 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$85,917, \$82,062 and \$79,714, respectively, equal to the required contributions for each year. The Health Center's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were approximately \$305,300, \$275,000 and \$276,000, 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, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 94,000
Sick leave	18,000
Total	<u>\$ 112,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

The Health Center's liability for earned compensated absences payable to employees is approximately \$271,000 at June 30, 2004.

(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, 2004 was \$85,719. Annual debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
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	\$ 85,719	4,329	90,048

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	\$ 216,000
	Emergency	25,000
	Local Option Sales Tax	136,000
	Enterprise:	
	Water	200,000
	Sewer	450,000
		<u>1,027,000</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	<u>165,000</u>
Capital Projects	Special Revenue:	
	Library Foundation	100,000
	Enterprise:	
	Water	<u>75,000</u>
		<u>175,000</u>
Total		<u>\$ 1,367,000</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 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 contributions to the Pool for the year ended June 30, 2004 were \$42,578.

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. All property risks 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 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, 2004, 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, 2004 were approximately \$495,000.

(9) Commitments

During the year ended June 30, 2004, the City entered into construction contracts for a library building. At June 30, 2004, \$256,978 remained to be paid on these contracts. Payments will be made from note proceeds and grants as work progresses on the project.

(10) Subsequent Events

City

In July 2004, the City issued \$1,130,000 of general obligation notes to pay the costs of a fire truck, street equipment, RISE project and to refund notes issued in prior years.

Health Center

Subsequent to June 30, 2004, the Health Center entered into a lease agreement for a CT scanner for approximately \$674,000. The agreement is considered to be a capital lease in accordance with U.S. generally accepted accounting principles.

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, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 1,475,004	-	-
Other city tax	403,456	-	-
Licenses and permits	8,948	-	-
Use of money and property	44,514	55,924	1,095
Intergovernmental	726,244	-	997
Charges for service	256,303	13,563,610	-
Miscellaneous	710,787	441,394	4,641
Total receipts	<u>3,625,256</u>	<u>14,060,928</u>	<u>6,733</u>
Disbursements:			
Public safety	921,658	-	-
Public works	467,568	-	-
Health and social services	3,500	-	-
Culture and recreation	842,821	-	5,127
Community and economic development	160,694	-	-
General government	328,775	-	-
Debt service	1,870,911	-	-
Capital projects	1,828,052	-	-
Business type activities	-	13,430,575	-
Total disbursements	<u>6,423,979</u>	<u>13,430,575</u>	<u>5,127</u>
Excess (deficiency) of receipts over (under) disbursements	(2,798,723)	630,353	1,606
Other financing sources, net	1,709,249	(725,000)	(100,000)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,089,474)	(94,647)	(98,394)
Balances beginning of year	<u>3,861,925</u>	<u>3,176,535</u>	<u>164,912</u>
Balances end of year	<u>\$ 2,772,451</u>	<u>3,081,888</u>	<u>66,518</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
1,475,004	1,447,453	1,447,453	27,551
403,456	358,823	358,823	44,633
8,948	11,000	11,000	(2,052)
99,343	70,000	70,000	29,343
725,247	744,394	744,394	(19,147)
13,819,913	13,589,905	16,589,905	(2,769,992)
1,147,540	1,636,200	1,636,200	(488,660)
17,679,451	17,857,775	20,857,775	(3,178,324)
921,658	1,012,200	1,012,200	90,542
467,568	499,500	499,500	31,932
3,500	10,948,802	13,948,802	13,945,302
837,694	879,000	879,000	41,306
160,694	160,000	165,000	4,306
328,775	370,000	394,000	65,225
1,870,911	550,798	550,798	(1,320,113)
1,828,052	2,500,000	2,500,000	671,948
13,430,575	1,390,000	1,390,000	(12,040,575)
19,849,427	18,310,300	21,339,300	1,489,873
(2,169,976)	(452,525)	(481,525)	(1,688,451)
1,084,249	1,000,000	1,000,000	84,249
(1,085,727)	547,475	518,475	(1,604,202)
6,873,548	1,828,104	-	6,873,548
5,787,821	2,375,579	518,475	5,269,346

City of Clarinda

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

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

Formal and legal budgetary control is based upon 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, one budget amendment increased budgeted disbursements by \$3,029,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, 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, 2004

	Special Revenue				
	Road Use Tax	Local Option Sales Tax	Employee Benefits	Emergency	Library Memorial
Receipts:					
Property tax	\$ -	-	208,780	24,445	-
Other city tax	-	355,145	7,670	892	-
Use of money and property	-	-	-	-	2,001
Intergovernmental	473,906	-	-	-	-
Miscellaneous	-	-	-	-	-
Total receipts	473,906	355,145	216,450	25,337	2,001
Disbursements:					
Operating:					
Public works	448,491	-	-	-	-
Culture and recreation	-	-	-	-	-
Total disbursements	448,491	-	-	-	-
Excess of receipts over disbursements	25,415	355,145	216,450	25,337	2,001
Other financing uses:					
Operating transfers out	-	(301,000)	(216,000)	(25,000)	-
Net change in cash balances	25,415	54,145	450	337	2,001
Cash balances beginning of year	26,083	184,773	200	318	17,331
Cash balances end of year	\$ 51,498	238,918	650	655	19,332
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	\$ 51,498	238,918	650	655	19,332
Permanent fund	-	-	-	-	-
Total cash basis fund balances	\$ 51,498	238,918	650	655	19,332

See accompanying independent auditor's report.

Permanent				
Library Foundation	Cemetery Perpetual Care	Library Bequest		Total
-	-	-		233,225
-	-	-		363,707
1,095	-	-		3,096
997	-	-		474,903
4,641	-	-		4,641
6,733	-	-		1,079,572
<hr/>				
-	-	-		448,491
5,127	-	-		5,127
5,127	-	-		453,618
<hr/>				
1,606	-	-		625,954
<hr/>				
(100,000)	-	-		(642,000)
<hr/>				
(98,394)	-	-		(16,046)
164,912	60,666	100,000		554,283
66,518	60,666	100,000		538,237
<hr/>				
66,518	-	-		377,571
-	60,666	100,000		160,666
66,518	60,666	100,000		538,237
<hr/>				

City of Clarinda
Schedule of Indebtedness
Year ended June 30, 2004

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
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
Library	Aug 1, 2003	1.50-4.40	1,000,000
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
Clarinda Regional Health Center and Affiliate:			
Revenue bonds:			
1997 Series A			
1997 Series B			
Total			
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
80,000	-	40,000	40,000	4,360
1,455,000	-	1,455,000	-	71,565
1,725,000	-	100,000	1,625,000	93,973
2,855,000	-	-	2,855,000	94,185
-	1,000,000	55,000	945,000	27,535
<u>\$ 6,115,000</u>	<u>1,000,000</u>	<u>1,650,000</u>	<u>5,465,000</u>	<u>291,618</u>
980,000	-	45,000	935,000	58,010
370,000	-	100,000	270,000	14,300
945,000	-	-	945,000	35,324
<u>\$ 2,295,000</u>	<u>-</u>	<u>145,000</u>	<u>2,150,000</u>	<u>107,634</u>
106,109	-	20,390	85,719	2,122
360,000	-	-	360,000	7,583
<u>\$ 708,259</u>	<u>-</u>	<u>65,102</u>	<u>643,157</u>	<u>27,750</u>
<u>1,158,016</u>	<u>-</u>	<u>91,569</u>	<u>1,066,447</u>	<u>45,149</u>
<u>\$ 1,866,275</u>	<u>-</u>	<u>156,671</u>	<u>1,709,604</u>	<u>72,899</u>
<u>\$ 479,750</u>	<u>-</u>	<u>80,504</u>	<u>399,246</u>	<u>23,950</u>

City of Clarinda

Note Maturities

June 30, 2004

Year Ending June 30,	General Obligation Notes					
	General		Essential		Refunding	
	Corporate Purpose		Corporate Purpose			
	Issued Jul 1, 1994		Issued May 1, 1997		Issued Apr 1, 2003	
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2005	5.50%	\$ 40,000	5.20%	\$ 110,000	1.80%	\$ 265,000
2006	-	-	5.25	115,000	2.20	465,000
2007	-	-	5.30	120,000	2.55	475,000
2008	-	-	5.35	125,000	2.90	490,000
2009	-	-	5.45	260,000	3.10	270,000
2010	-	-	5.50	280,000	3.30	285,000
2011	-	-	5.55	300,000	3.50	300,000
2012	-	-	5.65	315,000	3.65	305,000
2013	-	-	-	-	-	-
2014	-	-	-	-	-	-
2015	-	-	-	-	-	-
2016	-	-	-	-	-	-
2017	-	-	-	-	-	-
2018	-	-	-	-	-	-
Total		<u>\$ 40,000</u>		<u>\$ 1,625,000</u>		<u>\$ 2,855,000</u>

Year Ending June 30,	Revenue Notes						Total
	Sewer Capital Loan		Sewer Refunding Capital Loan		Sewer Refunding Capital Loan		
	Issued Jul 1, 1996		Issued May 1, 2002		Issued Apr 1, 2003		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
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>\$ 935,000</u>		<u>\$ 270,000</u>		<u>\$ 945,000</u>	<u>2,150,000</u>

See accompanying independent auditor's report.

Library		
Issued Aug 1, 2003		
Interest Rates	Amount	Total
1.75%	\$ 55,000	470,000
2.05	55,000	635,000
2.35	60,000	655,000
2.65	60,000	675,000
2.95	60,000	590,000
3.15	65,000	630,000
3.35	65,000	665,000
3.55	65,000	685,000
3.70	70,000	70,000
3.85	70,000	70,000
4.00	75,000	75,000
4.20	80,000	80,000
4.30	80,000	80,000
4.40	85,000	85,000
	<u>\$ 945,000</u>	<u>5,465,000</u>

Schedule 4

City of Clarinda

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

For the Last Two Years

	<u>2004</u>	<u>2003</u>
Receipts:		
Property tax	\$ 1,475,004	1,467,847
Other city tax	403,456	358,398
Licenses and permits	8,948	9,187
Use of money and property	44,514	31,929
Intergovernmental	726,244	575,731
Charges for service	256,303	311,380
Miscellaneous	710,787	483,361
	<u> </u>	<u> </u>
Total	<u>\$ 3,625,256</u>	<u>3,237,833</u>
Disbursements:		
Operating:		
Public safety	\$ 921,658	968,317
Public works	467,568	490,103
Health and social services	3,500	-
Culture and recreation	842,821	999,046
Community and economic development	160,694	134,748
General government	328,775	94,155
Debt service	1,870,911	559,977
Capital projects	1,828,052	345,739
	<u> </u>	<u> </u>
Total	<u>\$ 6,423,979</u>	<u>3,592,085</u>

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 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, 2004, and have issued our report thereon dated October 20, 2004. 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, 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, contracts and grants, 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, 2004 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), (3) and (10).

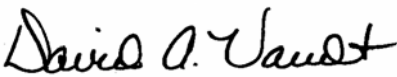
Internal Control Over Financial Reporting

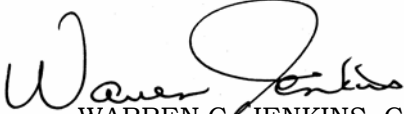
In planning and performing our audit, we considered the City of Clarinda's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial 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. Prior year reportable conditions have been resolved except for item (A).

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 20, 2004

City of Clarinda
Schedule of Findings
Year ended June 30, 2004

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.

Also, the City does not have a written disaster recovery plan.

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.

Response – The System is being updated and these items will be taken care of.

Conclusion – Response accepted.

City of Clarinda

Schedule of Findings

Year ended June 30, 2004

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, 2004. However, one bank changed its name during the year.

Recommendation – The City should adopt a new resolution amending the bank names.

Response – We will amend the bank names on our depository resolution.

Conclusion – Response accepted.

- (2) Certified Budget – Disbursements during the year ended June 30, 2004 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 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 amounts in the future.

Conclusion – Response accepted.

- (3) Questionable Disbursements – The City paid \$60,811 to the Clarinda Economic Development Corporation (Corporation) during fiscal year 2004. 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 – We currently do not have a Director and plan to structure this in a different manner in the future.

Conclusion – Response accepted.

- (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, 2004

- (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	\$ 71
Geary Kendall, Council Member, Owner of Kendall Lawn & Landscaping	Clean up	357

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.
- (9) Revenue Notes – The City has complied with the requirements of the revenue note resolutions.
- (10) 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. We may set up four funds in order to document disbursements.

Conclusion – Response accepted.

City of Clarinda

Schedule of Findings

Year ended June 30, 2004

- (11) Corrective Transfer – Certain library notes were paid from the Capital Projects Fund. All general obligation notes should be paid from the Debt Service Fund. Also, accrued interest of \$1,744 on the sale of general obligation notes was recorded in the Capital Projects Fund.

Recommendation – In the future, the City should transfer \$71,000 from the Debt Service Fund to the Capital Projects Fund. The notes should then be paid from the Debt Service Fund in the future. Also, the City should transfer \$1,744 from the Capital Projects Fund to the Debt Service Fund for the accrued interest on the sale of general obligation notes.

Response – We will review these and make the corrective transfer. Any surplus project funds may be transferred to Debt Service.

Conclusion – Response accepted.

- (12) Separately Maintained Records – The Fire Department maintains accounting records pertaining to its operations. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

Recommendation – For better accountability, financial and budgetary control, all City financial activity and balances should be recorded in the Clerk's records.

Response – The Fire Department re-established non-profit status in November 2004 and is currently legally separate.

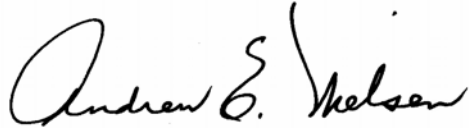
Conclusion – Response accepted.

City of Clarinda

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Paul F. Kearney, CGFM, Senior Auditor
Jeff L. Lenhart, 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