



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

May 25, 2011

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$1,003,936 for the year ended June 30, 2010. The receipts included \$273,406 in property tax, \$60,207 from local option sales tax, \$406,786 from charges for service, \$233,622 from operating grants, contributions and restricted interest, \$11,985 from unrestricted interest on investments and \$17,930 from other general receipts.

Disbursements for the year totaled \$1,364,119, and included \$186,915 for public safety, \$146,330 for public works and \$138,380 for debt service. Also, disbursements for business type activities totaled \$632,105

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1021-0136-B00F.pdf>.

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

JUNE 30, 2010

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City of Clarence

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2010)		
Michael L. Blake	Mayor	Jan 2010
Karen Dennis	Mayor Pro tem	Jan 2012
Jeric Armstrong (Appointed)	Council Member	Nov 2009
Larry Havel	Council Member	Jan 2010
Bonnie Hunwardsen	Council Member	Jan 2010
Levi Van Oort	Council Member	Jan 2010
Karen Dennis	Council Member	Jan 2012
(After January 2010)		
Michael L. Blake	Mayor	Jan 2014
Levi Van Oort	Mayor Pro tem	Jan 2014
Karen Dennis	Council Member	Jan 2012
Pat Hasenbank	Council Member	Jan 2012
Jeric Armstrong	Council Member	Jan 2014
Bart Miller	Council Member	Jan 2014
Deb Minar	Clerk	Indefinite
Sue Elijah	Treasurer	Indefinite
Russell Dircks	Attorney	Indefinite

City of Clarence



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Clarence, Iowa, as of and for the year ended June 30, 2010, 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 Clarence's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 provides 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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the preceding paragraph, the financial statements referred to above present fairly in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Clarence as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 28, 2011 on our consideration of the City of Clarence's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clarence's basic financial statements. Other supplementary information included in Schedules 1 through 3 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, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 28, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Clarence 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, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data have been provided when available.

2010 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased 1.35%, or approximately \$8,600, due primarily to various street repair projects.
- The cash basis net assets of the City's business type activities decreased 47.6%, or approximately \$352,000, due to the completion of the water tower project during fiscal year 2010.

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 and the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water, Sewer and Garbage and Recycling 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.

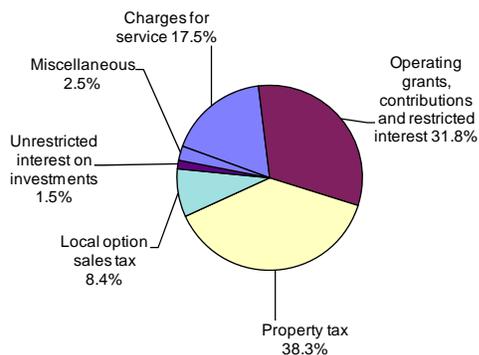
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$636,387 to \$627,826. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

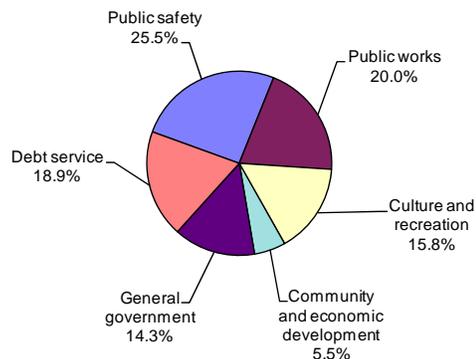
Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2010
Receipts:	
Program receipts:	
Charges for service	\$ 124,844
Operating grants, contributions and restricted interest	226,838
General receipts:	
Property tax	273,406
Local option sales tax	60,207
Unrestricted interest on investments	10,383
Miscellaneous	17,930
Total receipts	<u>713,608</u>
Disbursements:	
Public safety	186,915
Public works	146,330
Culture and recreation	115,732
Community and economic development	40,218
General government	104,439
Debt service	138,380
Total disbursements	<u>732,014</u>
Decrease in cash basis net assets before transfers	(18,406)
Transfers, net	<u>9,845</u>
Change in cash basis net assets	(8,561)
Cash basis net assets beginning of year	<u>636,387</u>
Cash basis net assets end of year	<u>\$ 627,826</u>

The cash basis net assets for the City's governmental funds decreased primarily due to various street repairs performed during fiscal year 2010.

Receipts by Source



Disbursements by Function



Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2010
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 121,053
Sewer	89,907
Garbage and recycling	70,982
Operating grants, contributions and restricted interest	6,784
General receipts:	
Unrestricted interest on investments	1,602
Total receipts	<u>290,328</u>
Disbursements:	
Water	501,018
Sewer	76,042
Garbage and recycling	55,045
Total disbursements	<u>632,105</u>
Decrease in cash basis net assets	(341,777)
Transfers, net	<u>(9,845)</u>
Change in cash basis net assets	(351,622)
Cash basis net assets beginning of year	<u>738,235</u>
Cash basis net assets end of year	<u>\$ 386,613</u>

The total business type activities cash basis net assets decreased from \$738,235 to \$386,613. The decrease was primarily due to the completion of the water tower project started during fiscal year 2009 with the debt issued during fiscal year 2009.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Clarence completed the year, its governmental funds reported a combined fund balance of \$627,826, a decrease of approximately \$8,600 below last year's total of \$636,387. 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 \$40,062 to \$346,295 over the prior year end balance of \$306,233, primarily due to an increase in receipts for the City's ambulance services.
- The Road Use Tax Fund cash balance decreased \$37,532 to \$82,446 at June 30, 2010, primarily due to various street repair projects.
- The Clarence Ambulance Service Volunteer Association, Inc. Fund cash balance increased \$21,458, from \$73,331 to \$94,789 at June 30, 2010. This was due to the receipt of \$10,000 from an estate during fiscal year 2010 and less disbursements.
- The Debt Service Fund cash balance decreased slightly, from \$3,656 to \$2,298.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased from \$610,970 to \$227,114 due to the completion of the water tower project started in the prior fiscal year with debt issued during fiscal year 2009. The City also raised the water rates during fiscal year 2010.
- The Sewer Fund cash balance increased from \$91,118 to \$106,585, due primarily to an increase in sewer rates for the fiscal year.

- The Garbage and Recycling Fund cash balance increased from \$36,147 to \$52,914 at June 30, 2010, due primarily to increased fees for commercial garbage disposal.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on January 13, 2010 and resulted in an increase in operating disbursements of \$83,000, primarily related to the business type activities and community and economic development functions. The second amendment was approved on May 17, 2010 and resulted in an increase of \$10,000 in operating disbursements for the public works function.

The City’s receipts were \$65,189 more than budgeted. This was primarily due to the City receiving more in ambulance billings than budgeted.

The City’s disbursements were \$8,155 less than budgeted. The public safety function was \$58,529 under budget, primarily due to the City not having a Police Chief for part of the year as a result of turnover in that position. The City ended the fiscal year with a part time Police Chief.

The City exceeded the amounts budgeted in the public works, culture and recreation, community and economic development and general government functions for the year ended June 30, 2010 due to higher costs for street repairs and costs related to the park, cemetery, Lincoln Highway Festival and City Hall.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$1,026,500 of general obligation and sewer revenue capital loan notes outstanding, compared to \$1,148,000 outstanding at June 30, 2009, as follows:

	Outstanding Debt at Year-End	
	June 30,	
	2010	2009
General obligation capital loan notes:		
Water refunding	\$ -	45,000
Sewer improvement	54,500	60,000
Municipal water utility	785,000	830,000
Sewer revenue capital loan notes	187,000	213,000
Total	<u>\$1,026,500</u>	<u>1,148,000</u>

Debt decreased from the prior year as a result of redeeming \$121,500 in debt principal during the 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 \$839,500 is significantly below its constitutional debt limit of approximately \$2.2 million.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The City of Clarence’s elected and appointed officials considered many factors when preparing the fiscal year 2011 budget, tax rates and fees charged for various City activities. The City’s fiscal year 2011 taxable value increased approximately \$529,000, or 2.3% over the fiscal year 2010 level.

The fiscal year 2011 budget includes total receipts of \$1,023,577 and disbursements of \$1,132,531.

The fiscal year 2011 levy is \$9.94 per \$1,000 of taxable valuation, which is a decrease from the \$11.61 per \$1,000 of taxable valuation levy rate in fiscal year 2010.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$109,000 by the close of fiscal year 2011.

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 Deb Minar, City Clerk, 411 Lombard Street, PO Box 418, City of Clarence, Iowa 52216-0418.

Basic Financial Statements

City of Clarence

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2010

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 186,915	114,427	88,869
Public works	146,330	5,677	93,504
Culture and recreation	115,732	4,100	33,169
Community and economic development	40,218	-	11,296
General government	104,439	640	-
Debt service	138,380	-	-
Total governmental activities	732,014	124,844	226,838
Business type activities:			
Water	501,018	121,053	5,954
Sewer	76,042	89,907	-
Garbage and recycling	55,045	70,982	830
Total business type activities	632,105	281,942	6,784
Total	\$ 1,364,119	406,786	233,622

General Receipts and Transfers:

Property tax levied for:
 General purposes
 Debt service
 Local option sales tax
 Unrestricted interest on investments
 Miscellaneous
 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:

Nonexpendable:

Cemetery perpetual care

Expendable:

Streets

Debt service

Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
16,381	-	16,381
(47,149)	-	(47,149)
(78,463)	-	(78,463)
(28,922)	-	(28,922)
(103,799)	-	(103,799)
(138,380)	-	(138,380)
(380,332)	-	(380,332)
-	(374,011)	(374,011)
-	13,865	13,865
-	16,767	16,767
-	(343,379)	(343,379)
(380,332)	(343,379)	(723,711)
191,384	-	191,384
82,022	-	82,022
60,207	-	60,207
10,383	1,602	11,985
17,930	-	17,930
9,845	(9,845)	-
371,771	(8,243)	363,528
(8,561)	(351,622)	(360,183)
636,387	738,235	1,374,622
\$ 627,826	386,613	1,014,439
\$ 3,000	-	3,000
82,446	-	82,446
2,298	54,673	56,971
193,787	-	193,787
346,295	331,940	678,235
\$ 627,826	386,613	1,014,439

City of Clarence

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

As of and for the year ended June 30, 2010

	Special Revenue		
	General	Road Use Tax	Clarence Ambulance Service Volunteer Association, Inc.
Receipts:			
Property tax	\$ 189,270	-	-
Other city tax	2,114	-	-
Licenses and permits	1,360	-	-
Use of money and property	14,483	-	851
Intergovernmental	32,242	93,504	-
Charges for service	116,444	-	-
Miscellaneous	20,870	-	40,201
Total receipts	376,783	93,504	41,052
Disbursements:			
Operating:			
Public safety	153,766	-	19,594
Public works	15,294	131,036	-
Culture and recreation	76,805	-	-
Community and economic development	1,494	-	-
General government	104,439	-	-
Debt service	-	-	-
Total disbursements	351,798	131,036	19,594
Excess (deficiency) of receipts over (under) disbursements	24,985	(37,532)	21,458
Other financing sources (uses):			
Operating transfers in	15,077	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	15,077	-	-
Net change in cash balances	40,062	(37,532)	21,458
Cash balances beginning of year	306,233	119,978	73,331
Cash balances end of year	\$ 346,295	82,446	94,789
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	346,295	-	-
Special revenue funds	-	82,446	94,789
Permanent fund	-	-	-
Total cash basis fund balances	\$ 346,295	82,446	94,789

See notes to financial statements.

<hr/>		
Debt		
Service	Nonmajor	Total
<hr/>		
81,106	-	270,376
916	60,207	63,237
-	-	1,360
-	77	15,411
-	-	125,746
-	-	116,444
-	59,963	121,034
82,022	120,247	713,608
<hr/>		
-	13,555	186,915
-	-	146,330
-	38,927	115,732
-	38,724	40,218
-	-	104,439
138,380	-	138,380
138,380	91,206	732,014
<hr/>		
(56,358)	29,041	(18,406)
<hr/>		
55,000	-	70,077
-	(60,232)	(60,232)
55,000	(60,232)	9,845
<hr/>		
(1,358)	(31,191)	(8,561)
3,656	133,189	636,387
<hr/>		
2,298	101,998	627,826
<hr/>		
2,298	-	2,298
-	-	346,295
-	98,998	276,233
-	3,000	3,000
<hr/>		
2,298	101,998	627,826
<hr/>		

City of Clarence

City of Clarence

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

As of and for the year ended June 30, 2010

	Enterprise			Total
	Water	Sewer	Garbage and Recycling	
Operating receipts:				
Charges for service	\$ 118,478	89,907	70,982	279,367
Operating disbursements:				
Business type activities	126,217	43,546	55,045	224,808
Excess (deficiency) of operating receipts over (under) operating disbursements	(7,739)	46,361	15,937	54,559
Non-operating receipts (disbursements):				
Rent	3581	-	-	3,581
Interest on investments	-	1,602	-	1,602
Miscellaneous	4,948	-	830	5,778
Debt service	-	(32,496)	-	(32,496)
Capital projects	(374,801)	-	-	(374,801)
Total non-operating receipts (disbursements)	(366,272)	(30,894)	830	(396,336)
Excess (deficiency) of receipts over (under) disbursements	(374,011)	15,467	16,767	(341,777)
Transfers:				
Operating transfers in	45,155	-	-	45,155
Operating transfers out	(55,000)	-	-	(55,000)
Total transfers in (out)	(9,845)	-	-	(9,845)
Net change in cash balances	(383,856)	15,467	16,767	(351,622)
Cash balances beginning of year	610,970	91,118	36,147	738,235
Cash balances end of year	\$ 227,114	106,585	52,914	386,613
Cash Basis Fund Balances				
Reserved for debt service	\$ -	54,673	-	54,673
Unreserved	227,114	51,912	52,914	331,940
Total cash basis fund balances	\$ 227,114	106,585	52,914	386,613

See notes to financial statements.

City of Clarence

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

The City of Clarence is a political subdivision of the State of Iowa located in Cedar County. It was first incorporated in 1859 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and garbage and recycling utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Clarence 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.

These financial statements present the City of Clarence (the primary government) and its component units. The 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.

Blended Component Units

The Clarence Ambulance Service Volunteer Association, Inc. has been incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504A of the Code of Iowa, for the purpose of assisting the Emergency Medical Service Department in the execution and performances of responsibilities to the citizens of Clarence with regard to the study and advancement of emergency medical response. In accordance with criteria set by the Governmental Accounting Standards Board, the Clarence Ambulance Service Volunteer Association, Inc. meets the definition of a component unit which should be blended. The financial activity for the account held by the component unit has been blended as a Special Revenue Fund of the City.

The Clarence Fire Fighters Association, Inc. has been incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504A of the Code of Iowa, for the purpose of aiding in the extinguishing of fires and performing such other duties as set forth by the Fire Department. In accordance with criteria set by the Governmental Accounting Standards Board, the Clarence Firefighters Association, Inc. meets the definition of a component unit which should be blended. The financial activity for the account held by the component unit has been blended as a Special Revenue Fund of the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Cedar County Assessor's Conference Board, Cedar County Emergency Management Commission, Cedar County Joint E911 Service Board and Cedar County Solid Waste Disposal Commission.

B. Basis of Presentation

Government-wide Financial Statements - 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 receipts, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

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

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

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

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

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Clarence Ambulance Service Volunteer Association, Inc. Fund is used to account for donations and capital disbursements for the Clarence Ambulance Service.

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

The City reports the following major proprietary funds:

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

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Garbage and Recycling Fund accounts for the operations and maintenance of the City's garbage and recycling system.

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are 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, 2010, disbursements exceeded the amounts budgeted in the public works, culture and recreation, community and economic development and general government functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 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 has no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Notes Payable

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

Year Ending June 30,	General Obligation Capital Loan Notes		Sewer Revenue Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2011	\$ 51,000	38,269	28,000	5,610	79,000
2012	56,000	36,438	29,000	4,770	85,000	41,208
2013	56,500	34,309	30,000	3,900	86,500	38,209
2014	57,000	32,032	32,000	3,000	89,000	35,032
2015	62,000	29,660	33,000	2,070	95,000	31,730
2016 - 2020	332,000	105,374	35,000	1,050	367,000	106,424
2021 - 2023	225,000	23,630	-	-	225,000	23,630
Total	\$ 839,500	299,712	187,000	20,400	1,026,500	320,112

Sewer Revenue Capital Loan Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$477,000 of sewer revenue capital loan notes issued in May 1996. Proceeds from the notes provided financing for the construction of improvements to the municipal sanitary sewer system. The notes are payable solely from sewer customer receipts and are payable through 2016. Annual principal and interest payments on the notes are expected to require less than 70 percent of net receipts. The total principal and interest remaining to be paid on notes is \$207,400. For the current year, principal and interest paid and total customer net receipts were \$32,390 and \$46,361, respectively.

The resolution providing for the issuance of the sewer revenue capital loan notes issued under a loan agreement between the City of Clarence, the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo, N. A. includes 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 separate sewer revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers to a sewer revenue reserve account shall be made until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.
- (d) User rates shall be established at a level which produces and maintains net receipts at a level not less than 110% of the amount of principal and interest on the notes falling due in the next succeeding fiscal year.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% 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 contribution to IPERS for the year ended June 30, 2010 was \$13,341, equal to the required contribution for the year.

(5) Interfund Transfer

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 15,052
	Library Gifts and Bequests	25
		15,077
Debt Service	Enterprise:	
	Water	55,000
Enterprise:	Special Revenue:	
Water	Local Option Sales Tax	45,155
Total		\$ 115,232

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

(6) Risk Management

The City is exposed to various risks related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance coverage in the year ended June 30, 2010.

Required Supplementary Information

City of Clarence
 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, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 270,376	-	-
Other city tax	63,237	-	-
Licenses and permits	1,360	-	-
Use of money and property	15,411	5,183	851
Intergovernmental	125,746	-	-
Charges for service	116,444	279,367	-
Miscellaneous	121,034	5,778	65,364
Total receipts	<u>713,608</u>	<u>290,328</u>	<u>66,215</u>
Disbursements:			
Public safety	186,915	-	33,149
Public works	146,330	-	-
Culture and recreation	115,732	-	-
Community and economic development	40,218	-	-
General government	104,439	-	-
Debt service	138,380	-	-
Business type activities	-	632,105	-
Total disbursements	<u>732,014</u>	<u>632,105</u>	<u>33,149</u>
Excess (deficiency) of receipts over (under) disbursements	(18,406)	(341,777)	33,066
Other financing sources (uses), net	9,845	(9,845)	-
Balances beginning of year	<u>636,387</u>	<u>738,235</u>	<u>103,828</u>
Balances end of year	<u>\$ 627,826</u>	<u>386,613</u>	<u>136,894</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
270,376	270,043	270,043	333
63,237	71,156	71,156	(7,919)
1,360	1,125	1,125	235
19,743	12,500	12,500	7,243
125,746	121,638	121,638	4,108
395,811	370,100	370,100	25,711
61,448	25,970	25,970	35,478
<u>937,721</u>	<u>872,532</u>	<u>872,532</u>	<u>65,189</u>
153,766	201,295	212,295	58,529
146,330	121,174	141,174	(5,156)
115,732	90,438	91,938	(23,794)
40,218	5,250	23,250	(16,968)
104,439	87,610	97,110	(7,329)
138,380	138,380	138,380	-
632,105	601,978	634,978	2,873
<u>1,330,970</u>	<u>1,246,125</u>	<u>1,339,125</u>	<u>8,155</u>
(393,249)	(373,593)	(466,593)	73,344
-	-	-	-
<u>1,270,794</u>	<u>1,084,306</u>	<u>1,084,306</u>	<u>186,488</u>
<u>877,545</u>	<u>710,713</u>	<u>617,713</u>	<u>259,832</u>

City of Clarence

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Permanent Fund 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 \$93,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public works, culture and recreation, community and economic development and general government functions.

Other Supplementary Information

City of Clarence

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

As of and for the year ended June 30, 2010

	Special Revenue			
	Local Option Sales Tax	Library Gifts and Bequests	Clarence Fire Fighters Association, Inc.	Clarence Lincoln Highway Festival
Receipts:				
Other city tax	\$ 60,207	-	-	-
Use of money and property	-	68	-	2
Miscellaneous	-	3,754	25,163	11,294
Total receipts	<u>60,207</u>	<u>3,822</u>	<u>25,163</u>	<u>11,296</u>
Disbursements:				
Operating:				
Public safety	-	-	13,555	-
Culture and recreation	-	5,666	-	-
Community and economic development	-	-	-	38,724
Total disbursements	<u>-</u>	<u>5,666</u>	<u>13,555</u>	<u>38,724</u>
Excess (deficiency) of receipts over (under) disbursements	60,207	(1,844)	11,608	(27,428)
Other financing uses:				
Operating transfers out	<u>(60,207)</u>	<u>(25)</u>	<u>-</u>	<u>-</u>
Net change in cash balances	-	(1,869)	11,608	(27,428)
Cash balances beginning of year	-	7,173	30,497	65,404
Cash balances end of year	<u>\$ -</u>	<u>5,304</u>	<u>42,105</u>	<u>37,976</u>
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ -	5,304	42,105	37,976
Permanent fund	-	-	-	-
	<u>\$ -</u>	<u>5,304</u>	<u>42,105</u>	<u>37,976</u>

See accompanying independent auditor's report.

Clarence Community Park Booster Club	Friends of Zybell Memorial Library	Permanent Mabel L. Woods Cemetery Trust	Total
-	-	-	60,207
7	-	-	77
14,151	5,601	-	59,963
14,158	5,601	-	120,247
-	-	-	13,555
25,937	7,324	-	38,927
-	-	-	38,724
25,937	7,324	-	91,206
(11,779)	(1,723)	-	29,041
-	-	-	(60,232)
(11,779)	(1,723)	-	(31,191)
22,700	4,415	3,000	133,189
10,921	2,692	3,000	101,998
10,921	2,692	-	98,998
-	-	3,000	3,000
10,921	2,692	3,000	101,998

City of Clarence
 Schedule of Indebtedness
 Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes:			
Water refunding	May 1, 1999	4.45 - 4.70%	\$ 475,000
Sewer improvement	Jan 14, 2008	4.25	71,000
Municipal water utility	Dec 23, 2008	3.00-5.20	850,000
Total			
Sewer revenue capital loan notes:			
Sewer improvements	May 30, 1996	3.00%	\$ 477,000

See accompanying independent auditor's report.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
45,000	45,000	-	2,115
60,000	5,500	54,500	2,550
830,000	45,000	785,000	37,415
<u>\$ 935,000</u>	<u>95,500</u>	<u>839,500</u>	<u>42,080</u>
<u>213,000</u>	<u>26,000</u>	<u>187,000</u>	<u>6,390</u>

Schedule 3

City of Clarence

Note Maturities

June 30, 2010

Year Ending June 30,	General Obligation Capital Loan Notes					Total
	Municipal Water Utility		Sewer Improvement			
	Issued December 23, 2008		Issued January 14, 2008			
	Interest Rates	Amount	Interest Rates	Amount		
2011	3.50%	\$ 45,000	4.25%	\$ 6,000	51,000	
2012	3.75	50,000	4.25	6,000	56,000	
2013	4.00	50,000	4.25	6,500	56,500	
2014	4.15	50,000	4.25	7,000	57,000	
2015	4.30	55,000	4.25	7,000	62,000	
2016	4.45	55,000	4.25	7,000	62,000	
2017	4.60	60,000	4.25	7,500	67,500	
2018	4.70	60,000	4.25	7,500	67,500	
2019	4.80	65,000	-	-	65,000	
2020	4.90	70,000	-	-	70,000	
2021	5.00	70,000	-	-	70,000	
2022	5.10	75,000	-	-	75,000	
2023	5.20	80,000	-	-	80,000	
Total		<u>\$ 785,000</u>		<u>\$ 54,500</u>	<u>839,500</u>	

Year Ending June 30,	Sewer Revenue Capital Loan Notes Sewer Improvements Issued May 30, 1996		
	Interest		
	Rates	Amount	
	2011	3.00%	
2012	3.00	29,000	
2013	3.00	30,000	
2014	3.00	32,000	
2015	3.00	33,000	
2016	3.00	35,000	
Total		<u>\$ 187,000</u>	

See accompanying independent auditor's report.



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Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Clarence, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated April 28, 2011. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009. Except as noted in the Independent Auditor's Report, 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 Clarence's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Clarence's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Clarence's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and another deficiency we consider to be a significant deficiency.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (D) to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Clarence's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Clarence's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Clarence's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Clarence and other parties to whom the City of Clarence 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 Clarence during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 28, 2011

City of Clarence
Schedule of Findings
Year ended June 30, 2010

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one person has control over each of the following areas for the City, the Clarence Lincoln Highway Festival, the Clarence Community Park Booster Club and the Friends of Zybell Memorial Library, as applicable:

- (1) Accounting system – performing all general accounting functions, controlling all data input and output and custody of assets.
- (2) Cash – preparing bank account reconciliations, initiating cash receipt and disbursement functions and handling and recording cash.
- (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (4) Long term debt – recording and reconciling.
- (5) Receipts – collecting, depositing, journalizing, reconciling and posting.
- (6) Utility and Ambulance receipts – billing, collecting, depositing, posting and reconciling.
- (7) Disbursements – purchasing, check writing, recording and reconciling, check signing and posting.
- (8) Payroll – preparation, distribution and posting.
- (9) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.
- (10) Financial reporting – preparing, reconciling and distributing.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. Evidence of independent reviews should be indicated by initials of the independent reviewer and the date of the review.

Response – We will review our procedures and have Council Members review, initial and date financial reports monthly. We will also recommend to the outside entities to have someone else review, initial and date their financial reports.

Conclusion – Response accepted.

City of Clarence

Schedule of Findings

Year ended June 30, 2010

- (B) Information System – The following weaknesses in the City’s computer based system were noted:

The City does not have written policies for:

- (1) Requiring password changes every 60 to 90 days, which the system does not require, and requiring users to maintain password privacy and confidentiality.
- (2) Requiring a time out and/or log off function or screen saver password to protect a terminal if left unattended.
- (3) Logging off unattended computer(s).

In addition, although the City has an approved written disaster recovery plan, the plan does not include the following:

- (1) Identification of critical applications.
- (2) Identification of staff responsibilities.
- (3) Identification of steps for recovery of any operating systems for City operations.
- (4) Identification of computer equipment needed for temporary processing.
- (5) Identification of business location(s) which could be used to process critical applications in the event of an emergency, including any applicable written agreements for the use of other locations.
- (6) Requirement a copy of the disaster recovery plan be kept off site.
- (7) Requirement to keep system backups current and off site.
- (8) Inventory of all hardware and components (e.g.: make, model numbers, serial numbers, etc.)
- (9) Inventory of all software applications (e.g.: operating system and software applications, release versions and vendor names).
- (10) Requirement copies of all user documentation and policy and procedures manuals be located off site.
- (11) Requirement extra stocks of paper supplies, such as checks, warrants, purchase orders, etc., be located off site.
- (12) Requirements outlining frequency and guidelines for testing of the disaster recovery plan to identify issues and document the results of testing.

City of Clarence

Schedule of Findings

Year ended June 30, 2010

Recommendation – The City should develop written policies and procedures addressing the above items in order to improve the City’s control over the computer based system. The City should also revise the written disaster recovery plan, with documented approval of the City Council, to include the above information.

Response – The City will research and develop a policy to include the above items and a disaster recovery plan which includes the recommended information and have it approved by the City Council.

Conclusion – Response accepted.

(C) Separately Maintained Records – The bookkeeping and custody of the Clarence Ambulance Service Volunteer Association, Inc., Clarence Fire Fighters Association, Inc., Clarence Lincoln Highway Festival, Clarence Community Park Booster Club and Friends of Zybell Memorial Library were under the control of the Treasurer of the respective Boards in a location separate from the City Clerk’s office. The following items were noted:

- (1) There was no evidence of monthly bank reconciliations and listings of disbursements approved by the Board was not maintained for the Clarence Ambulance Service Volunteer Association, Inc.
- (2) There was no evidence of monthly bank reconciliations for the Clarence Fire Fighters Association, Inc.
- (3) Board approval was not available for one of five disbursements tested for the Clarence Lincoln Highway Festival.
- (4) There was no evidence of monthly bank reconciliations and documentation of Board approval was not available for two of the five disbursements tested for the Clarence Community Park Booster Club.
- (5) There was no evidence of monthly bank reconciliations and documentation of Board approval was not available for the five disbursements tested for the Friends of the Zybell Memorial Library.

Recommendation – Disbursements should be approved by each Board and included as part of the Board’s minutes. Evidence of monthly bank reconciliations and independent review of those reconciliations should also be maintained.

Response – The City will consider bringing these accounts into the City accounting records as well as recommend to the outside entities they implement the recommendations of approval of disbursements at Board meetings, monthly bank reconciliations and independent review of the reconciliations.

Conclusion – Response accepted.

City of Clarence

Schedule of Findings

Year ended June 30, 2010

- (D) Employee Health Insurance – During the year ended June 30, 2010, the City paid \$5,000 per year for each full time employee to purchase health insurance. If the full amount is not needed, the employee receives the payment as a quarterly addition to their pay. However, there is no policy authorizing these disbursements.

Recommendation – The City should develop and approve an official policy regarding health insurance for employees. This policy should include information and procedures regarding the annual amount, how the insurance company is paid and payment procedures.

Response – The City will develop and approve an official policy for procedures related to employee health insurance.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Clarence

Schedule of Findings

Year ended June 30, 2010

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the public works, culture and recreation, community and economic development and general government functions. In addition, disbursements exceeded the amount budgeted in the public safety function prior to the budget amendment. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City will work to amend the budget before disbursements are allowed to exceed the budget functions in the future.

Conclusion – Response accepted.

- (2) Questionable Disbursements – Certain disbursements we believe 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 were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Casey’s General Store	Pizza and pop for meetings	\$ 103
Doris’ Flower Shop	Flowers	59

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 – The City will determine and document the public purpose of these disbursements on a case by case basis and require proper documentation.

Conclusion – Response accepted.

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

City of Clarence

Schedule of Findings

Year ended June 30, 2010

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Lisa Miller, Wife of Council Member, Owner of Shirts N Stuff	Uniforms and hats	\$ 412

In accordance with Chapter 362.5(11) of the Code of Iowa, these transactions do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Sewer Revenue Capital Loan Notes – No instances of non-compliance with the provisions of the City's sewer revenue capital loan notes resolution were noted.
- (9) Sales Tax – Sales tax collected was recorded in each utility fund when received. However, the disbursements made from each utility fund did not agree with the amounts collected.

Recommendation – Sales tax receipts and disbursements should be accounted for in the proper accounts and at proper amounts.

Response – The City Clerk has already made adjustments to the utility billing software to begin collecting and disbursing sales tax from the proper accounts.

Conclusion – Response accepted.

- (10) Utility Basic Charge Collections – Ordinance #183 adopted on March 23, 2006 approved a \$2.50 per month basic charge as part of the water rate. Ordinance #191 adopted on November 22, 2007 replaced the previous ordinance and did not include the basic charge. The City continued to charge the basic charge although the basic charge was repealed by Ordinance #191 and was no longer an approved charge.

Recommendation – The City should consult legal counsel and take corrective action, if any.

Response – The City will consult with the City Attorney to determine whether corrective action will be taken.

Conclusion – Response accepted.

City of Clarence

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Kristin M. Ockenfels, Staff Auditor
Ainslee M. Barnes, CPA, Staff 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