



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

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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NEWS RELEASE

FOR RELEASE

May 29, 2003

Contact: Andy Nielsen
515/2815515

The Office of Auditor of State today released an audit report on the City of Kent, Iowa. The audit was performed after a petition for audit was received from citizens of the City of Kent.

The City's receipts totaled \$7,900 for the year ended June 30, 2002. The receipts included \$3,057 in property tax, \$4,730 from other governments and \$79 in interest on investments.

Disbursements for the year totaled \$9,872 and included \$1,659 for community protection, \$225 for human development, \$4,314 for home and community environment, and \$3,674 for policy and administration.

A petition for the discontinuance of the City of Kent has been filed with the City Development Board of the State of Iowa, and a special election on the discontinuance will be held on June 10, 2003. If the discontinuance is approved, the City of Kent will no longer be an incorporated city. Instead, it will become part of the unincorporated area of Union County.

A copy of the audit report is available for review in the office of the Auditor of State.

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CITY OF KENT
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2002

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City of Kent

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------------|----------------|---------------------|
| (Before January 2002) | | |
| Dean Schaffer | Mayor | Jan 2002 |
| Wayne Gridley | Council Member | Jan 2002 |
| Brenda Schaffer | Council Member | Jan 2002 |
| Doug Wilson | Council Member | Jan 2004 |
| Johnny Misner | Council Member | Jan 2004 |
| Nancy Norris | Council Member | Jan 2004 |
| Betty Schaffer | Clerk | Dec 2001 |
| (After January 2002) | | |
| Mary Brown | Mayor | Resigned |
| Doug Wilson | Council Member | Resigned |
| Johnny Misner | Council Member | Resigned |
| Nancy Norris | Council Member | Resigned |
| Robin Bauer | Council Member | Resigned |
| Leah Cook (appointed) | Council Member | Resigned |
| Roy Cook | Council Member | Resigned |
| Peg Brown | Clerk | Resigned |

City of Kent



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Independent Auditor's Report

To the Citizens of the City of Kent and the City Development Board of the State of Iowa:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of Kent, Iowa, as of and for the year ended June 30, 2002. These financial statements are the responsibility of the City of Kent's management. Our responsibility is to express an opinion 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2001.

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, 2001, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Kent as of and for the year ended June 30, 2002 on the basis of accounting described in note 1.

As discussed in note 5, a petition for the discontinuance of the City of Kent has been filed with the City Development Board of the State of Iowa. A special election on the discontinuance will be held on June 10, 2003.

In accordance with Government Auditing Standards, we have also issued our report dated February 25, 2003 on our consideration of the City of Kent's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

February 25, 2003

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

City of Kent

Financial Statements

Exhibit A

City of Kent
Combined Statement of Cash Transactions
All Fund Types
Year ended June 30, 2002

| | <u>Governmental Fund Types</u> | | Total (Memorandum Only) |
|--|--------------------------------|--------------------|-------------------------------|
| | General | Special Revenue | |
| Receipts: | | | |
| Property tax | \$ 3,057 | - | 3,057 |
| Use of money and property | 79 | - | 79 |
| Intergovernmental | 565 | 4,165 | 4,730 |
| Miscellaneous | 34 | - | 34 |
| Total receipts | <u>3,735</u> | <u>4,165</u> | <u>7,900</u> |
| Disbursements: | | | |
| Community Protection Program | 500 | 1,159 | 1,659 |
| Human Development Program | 225 | - | 225 |
| Home and Community Environment Program | - | 4,314 | 4,314 |
| Policy and Administration Program | 3,674 | - | 3,674 |
| Total disbursements | <u>4,399</u> | <u>5,473</u> | <u>9,872</u> |
| Deficiency of receipts under disbursements | (664) | (1,308) | (1,972) |
| Balance beginning of year | <u>2,469</u> | <u>1,566</u> | <u>4,035</u> |
| Balance end of year | <u>\$ 1,805</u> | <u>258</u> | <u>2,063</u> |

See notes to financial statements.

City of Kent
 Comparison of Receipts, Disbursements
 and Changes in Balances -

Actual to Budget

Year ended June 30, 2002

| | Actual | Budget | Variance Favorable (Unfavorable) | Actual as % of Budget |
|---|-----------------|--------------|--|-----------------------------|
| Receipts: | | | | |
| Property tax | \$ 3,057 | 3,009 | 48 | 102% |
| Other City tax | - | 567 | (567) | 0% |
| Use of money and property | 79 | 95 | (16) | 83% |
| Intergovernmental | 4,730 | 6,023 | (1,293) | 79% |
| Miscellaneous | 34 | - | 34 | 100% |
| Total receipts | <u>7,900</u> | <u>9,694</u> | <u>(1,794)</u> | <u>81%</u> |
| Disbursements: | | | | |
| Community Protection Program | 1,659 | 2,090 | 431 | 79% |
| Human Development Program | 225 | 383 | 158 | 59% |
| Home and Community Environment Program | 4,314 | 3,869 | (445) | 112% |
| Policy and Administration Program | 3,674 | 3,270 | (404) | 112% |
| Total disbursements | <u>9,872</u> | <u>9,612</u> | <u>(260)</u> | <u>103%</u> |
| Excess (deficiency) of receipts over (under) disbursements | (1,972) | 82 | | |
| Balance beginning of year | <u>4,035</u> | <u>4,158</u> | | |
| Balance end of year | <u>\$ 2,063</u> | <u>4,240</u> | | |

See notes to financial statements.

City of Kent

Notes to Financial Statements

June 30, 2002

(1) Summary of Significant Accounting Policies

The City of Kent is a political subdivision of the State of Iowa located in Union County. It was first incorporated in 1874 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City of Kent 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. The City has no component units which meet the Governmental Accounting Standards Board criteria.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and fund balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City.

All general tax receipts and other receipts that are 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 that are not paid from other funds.

Special Revenue Fund – The Special Revenue Fund is utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in a separate fund.

C. Basis of Accounting

The City of Kent 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.

D. Budgets and Budgetary Accounting

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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon four major classes of disbursements, known as programs, not by fund. These four programs are community protection, human development, home and community environment and policy and administration.

E. Total (Memorandum Only)

The total columns on the combined statements of cash transactions are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Deposits

The City's deposits in banks at June 30, 2002 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 had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

(3) Risk Management

The City of Kent is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. 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.

(4) Budget Overexpenditures

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the program level. During the year ended June 30, 2002, disbursements in the Home and Community Environment and Policy and Administration Programs exceeded the amounts budgeted.

(5) Petition for Discontinuance

The Southern Iowa Council of Governments filed a petition with the City Development Board of the State of Iowa on September 5, 2002 for discontinuance of the City of Kent in accordance with Chapter 368.11 of the Code of Iowa. On February 12, 2003, the City Development Board members and the locally appointed representative (the Committee) held a public hearing regarding discontinuance as required by Chapter 368.15 of the Code of Iowa. On March 13, 2003, the Committee approved the petition for discontinuance of the City of Kent and approved a special election on the proposal of discontinuance as required by Chapter 368.19 of the Code of Iowa. Registered voters of the City may vote, and the proposal is authorized if a majority of those voting approve the proposal. The special election is scheduled to be held on June 10, 2003. The City no longer has any employees or elected officials in office.

Supplemental Information

Schedule 1

City of Kent
Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

| | | |
|--|----|---------------------|
| Receipts: | | |
| Property tax | \$ | 3,057 |
| Use of money and property: | | |
| Interest on investments | | 79 |
| Intergovernmental: | | |
| State allocation | | 565 |
| Miscellaneous | | 34 |
| Total receipts | | <u>3,735</u> |
| Disbursements: | | |
| Community Protection Program: | | |
| Fire: | | |
| Contractual services | | <u>500</u> |
| Human Development Program: | | |
| Parks and recreation: | | |
| Contractual services | | <u>225</u> |
| Policy and Administration Program: | | |
| Personal services | | 957 |
| Contractual services | | 2,328 |
| Commodities | | 170 |
| Capital outlay | | <u>219</u> |
| | | <u>3,674</u> |
| Total disbursements | | <u>4,399</u> |
| Deficiency of receipts under disbursements | | (664) |
| Balance beginning of year | | <u>2,469</u> |
| Balance end of year | \$ | <u><u>1,805</u></u> |

See accompanying independent auditor's report.

City of Kent
 Schedule of Cash Transactions
 Special Revenue Fund
 Year ended June 30, 2002

| | Road Use Tax |
|--|--------------------|
| Receipts: | |
| Intergovernmental: | |
| Road use tax allocation | \$ 4,165 |
| Disbursements: | |
| Community Protection Program: | |
| Contractual services | 1,159 |
| Home and Community Environment Program: | |
| Contractual services | 2,067 |
| Commodities | 2,247 |
| | 4,314 |
| Total disbursements | 5,473 |
| Deficiency of receipts under disbursements | (1,308) |
| Balance beginning of year | 1,566 |
| Balance end of year | \$ 258 |

See accompanying independent auditor's report.

City of Kent



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Auditor of State

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

To the Citizens of the City of Kent and the City Development Board of the State of Iowa:

We have audited the financial statements of the City of Kent, Iowa, as of and for the year ended June 30, 2002, and have issued our report thereon dated February 25, 2003. Our report, which was prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion on the financial statements since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2001.

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2002 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Kent'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. Certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions were noted. 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 Kent's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are not included because the City has no employees or elected officials in office and the City is in the process of discontinuance.

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.

This report, a public record by law, is intended solely for the information and use of the citizens of the City of Kent and other parties to whom the City of Kent 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 the former personnel of the City of Kent 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.

February 25, 2003

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

City of Kent
 Schedule of Findings
 Year ended June 30, 2002

Other Findings Related to Required Statutory Reporting:

(Responses and conclusions are not included because the City has no employees or elected officials in office and the City is in the process of discontinuance.)

- (1) Official Depositories - A resolution naming official depositories adopted by the City Council could not be located.

Recommendation - The Council should have adopted a depository resolution as required by Chapter 12C.2 of the Code of Iowa.

- (2) Certified Budget - Disbursements during the year ended June 30, 2002 exceeded the amounts budgeted in the Home and Community Environment and Policy and Administration programs. 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 as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed budgeted amounts.

- (3) Questionable Disbursements - No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

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

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

| Name, Title, and Business Connection | Transaction Description | Amount |
|---|--|--------|
| Dean Schaffer, Mayor | Snow removal and street maintenance | \$ 75 |

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

- (6) Bond Coverage - Surety bond coverage of City officials and employees was in accordance with statutory provisions.

City of Kent

Schedule of Findings

Year ended June 30, 2002

- (7) Council Minutes - Except as noted, no transactions were found that we believe should have been approved in the Council minutes but were not.

Certain minutes were not properly signed. Also, the City did not record the vote of the Council members present for a closed session on April 9, 2002, and the meeting was closed without indicating the specific reason along with all action taking place during the closed session. Minutes posted did not include a list of the claims allowed, purpose of the claim and a summary of all receipts.

The Council approved an ordinance on May 7, 2002 with a unanimous vote, but it was unclear if the full text of the ordinance was posted prior to passage, if a notice to hold a public hearing was posted or if a public hearing was held.

Recommendation - The Mayor and Clerk should sign minutes to attest to their accuracy as required by Chapter 380.7 of the Code of Iowa. Also, the City should document the reason for the closed session and record the vote of each Council member present at the meeting as required by Chapter 21.5 of the Code of Iowa. In addition, minutes posted should include a list of the claims allowed and a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa. The purpose of the claim should be included in the minutes posted as required by Attorney General's opinion dated April 12, 1978.

The City should comply with Chapter 380 of the Code of Iowa for approval of ordinances.

- (8) Deposits and Investments - A written investment policy adopted by the City could not be located.

Recommendation - The City should have adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

- (9) Payroll Withholdings - The City did not withhold on the following City officials and employees as required by Federal and State payroll regulations:

The Mayor and City Council members did not have Federal tax and Iowa Public Employees Retirement System (IPERS) amounts withheld, as applicable, and forms were not available on file to determine if any of these officials declined inclusion in the IPERS program.

The City Clerk was not considered an employee. Federal withholding, FICA, IPERS and State withholding amounts were not deducted as required.

The City maintenance person also was not considered an employee. The appropriate payroll taxes were not withheld and payroll forms were not filed. After June 30, 2002, the City did file Federal 941 forms for this employee, received the employee share of Federal taxes and paid the City's share of the liability for the time period this person performed City services. However, an IPERS liability was not computed or paid and quarterly reports were not filed.

City of Kent

Schedule of Findings

Year ended June 30, 2002

Recommendation – The City should have withheld taxes on the compensation of the Mayor, Council Members and City employees as required by Federal and State regulations and the appropriate payroll forms should have been filed. The City should consult the Internal Revenue Service (IRS), Iowa Public Employees Retirement System (IPERS) and the Iowa Department of Revenue and Finance regarding the disposition of these matters.

- (10) City Code – The City Code has not been recodified within the past five years.

Recommendation – Chapter 380.8 of the code of Iowa states in part, "At least once every five years, a City shall compile a Code of ordinances containing all City ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances, and ordinances vacating streets and alleys." If the City's discontinuance is not approved at the special election, the City should review this for compliance.

- (11) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

- (12) Annual Financial Report – The City did not post or file with the Auditor of State the annual report required by Chapter 384.22 of the Code of Iowa for the fiscal year ended June 30, 2002.

Recommendation – The City should post and file the annual report as required by Chapter 384.22 of the Code of Iowa.

- (13) Petition for Audit – Except as noted, all items included in the petition for the audit have been resolved.

City of Kent

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Nancy F. Curtis, CPA, Senior Auditor II

Andrew E. Nielsen, CPA
Deputy Auditor of State