



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

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Auditor of State

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Des Moines, Iowa 50319-0004

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NEWS RELEASE

FOR RELEASE April 1, 2003

Contact: Andy Nielsen
515/281-5515

The Office of Auditor of State today released an audit report on the City of Clarence, Iowa.

The City's receipts totaled \$814,101 for the year ended June 30, 2002. The receipts included \$208,119 in property tax, \$29,903 in local option sales tax, \$97,925 from the state and \$32,313 in interest on investments.

Disbursements for the year totaled \$808,900, and included \$347,369 for community protection, \$36,803 for human development, \$336,209 for home and community environment and \$88,519 for policy and administration.

This report contains recommendations to the City Council and other City officials. For example, the City should segregate accounting duties to the extent possible with existing personnel. Also, City personnel should prepare a reconciliation of utility billings, collections, and delinquencies for each billing period. The City has responded favorably to the recommendations.

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

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

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5
Financial Statements:	<u>Exhibit</u>	
Combined Statement of Cash Transactions – All Fund Types	A	8-9
Comparison of Receipts, Disbursements and Changes in Balances – Actual to Budget	B	11
Statement of Indebtedness	C	12-13
Notes to Financial Statements		14-17
Supplemental Information:	<u>Schedule</u>	
Combining and Individual Schedules of Cash Transactions:		
General Fund	1	20-27
Special Revenue Funds	2	28
Debt Service Fund	3	29
Enterprise Funds	4	30-33
Trust Funds	5	34
Note Maturities	6	35
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		37-38
Schedule of Findings		39-44
Staff		45

City of Clarence

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2002)		
B. Michael Ellingson	Mayor	Jan 2002
Bonnie Hunwardsen	Mayor Pro tem	Jan 2002
David Shinker	Council Member	(Resigned)
Peter Kanakares (Appointed)	Council Member	Jan 2002
Don Wadsworth	Council Member	Jan 2002
Michael Blake	Council Member	Jan 2004
Noel Mast	Council Member	Jan 2004
(After January 2002)		
B. Michael Ellingson	Mayor	Jan 2006
Bonnie Hunwardsen	Mayor Pro tem	Jan 2006
Michael Blake	Council Member	Jan 2004
Noel Mast	Council Member	Jan 2004
Peter Kanakares	Council Member	Jan 2006
Todd Thein	Council Member	Jan 2006
Deb Minar	Clerk	Jan 2004
Dean Claney	Treasurer	Jan 2004
Russell Dircks	Attorney	Jan 2004

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, listed as exhibits in the table of contents of this report, of the City of Clarence, Iowa, as of and for the year ended June 30, 2002. These financial statements are the responsibility of the City of Clarence'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 Clarence as of and for the year ended June 30, 2002, and its indebtedness at June 30, 2002, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 4, 2003 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 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 through 6 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.

March 4, 2003

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

City of Clarence

Financial Statements

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

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Receipts:			
Property tax	\$ 152,747	-	55,372
Tax increment financing collections	-	5,554	-
Other city tax	35,820	-	2,124
Licenses and permits	1,925	-	-
Use of money and property	33,539	-	-
Intergovernmental	94,521	80,738	-
Charges for service	108,994	-	-
Miscellaneous	53,564	-	-
Total receipts	<u>481,110</u>	<u>86,292</u>	<u>57,496</u>
Disbursements:			
Community Protection Program	347,369	-	-
Human Development Program	36,803	-	-
Home and Community Environment Program	33,151	64,956	62,895
Policy and Administration Program	88,519	-	-
Total disbursements	<u>505,842</u>	<u>64,956</u>	<u>62,895</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(24,732)</u>	<u>21,336</u>	<u>(5,399)</u>
Other financing sources (uses):			
Operating transfers in	54,419	-	5,575
Operating transfers out	(93,972)	(5,575)	-
Total other financing sources (uses)	<u>(39,553)</u>	<u>(5,575)</u>	<u>5,575</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>(64,285)</u>	<u>15,761</u>	<u>176</u>
Balance beginning of year	<u>413,699</u>	<u>113,848</u>	<u>4,085</u>
Balance end of year	<u>\$ 349,414</u>	<u>129,609</u>	<u>4,261</u>

See notes to financial statements.

<u>Proprietary Fund Type</u> Enterprise	<u>Fiduciary Fund Type</u> Trust	Total (Memorandum Only)
-	-	208,119
-	-	5,554
-	-	37,944
-	-	1,925
2,829	20	36,388
-	-	175,259
186,179	-	295,173
-	175	53,739
<u>189,008</u>	<u>195</u>	<u>814,101</u>
-	-	347,369
-	-	36,803
175,207	-	336,209
-	-	88,519
<u>175,207</u>	<u>-</u>	<u>808,900</u>
<u>13,801</u>	<u>195</u>	<u>5,201</u>
76,198	-	136,192
(36,645)	-	(136,192)
<u>39,553</u>	<u>-</u>	<u>-</u>
53,354	195	5,201
<u>133,617</u>	<u>4,760</u>	<u>670,009</u>
<u>186,971</u>	<u>4,955</u>	<u>675,210</u>

City of Clarence

City of Clarence

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget

Year ended June 30, 2002

	Actual	Amended Budget	Variance Favorable (Unfavorable)	Actual as % of Amended Budget
Receipts:				
Property tax	\$ 208,119	208,185	(66)	100%
Tax increment financing collections	5,554	5,575	(21)	100%
Other city tax	37,944	7,219	30,725	526%
Licenses and permits	1,925	1,795	130	107%
Use of money and property	36,388	26,225	10,163	139%
Intergovernmental	175,259	171,032	4,227	102%
Charges for service	295,173	165,400	129,773	178%
Miscellaneous	53,739	750	52,989	7165%
Total receipts	<u>814,101</u>	<u>586,181</u>	<u>227,920</u>	<u>139%</u>
Disbursements:				
Community Protection Program	347,369	239,952	(107,417)	145%
Human Development Program	36,803	39,166	2,363	94%
Home and Community Environment Program	336,209	363,331	27,122	93%
Policy and Administration Program	88,519	91,873	3,354	96%
Total disbursements	<u>808,900</u>	<u>734,322</u>	<u>(74,578)</u>	<u>110%</u>
Excess (deficiency) of receipts over (under) disbursements	5,201	(148,141)		
Balance beginning of year	<u>670,009</u>	<u>538,988</u>		
Balance end of year	<u>\$ 675,210</u>	<u>390,847</u>		

See notes to financial statements.

City of Clarence
Statement of Indebtedness
Year ended June 30, 2002

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes:			
Industrial park and urban renewal	Jul 26, 1995	5.75%	\$ 40,000
Water refunding	May 1, 1999	4.10-4.70	475,000
Total			
Sewer revenue capital loan note:			
Sewer improvement	May 30, 1996	4.54%	\$ 477,000

See notes to financial statements.

<u>Balance</u> <u>Beginning</u> <u>of Year</u>	<u>Redeemed</u> <u>During</u> <u>Year</u>	<u>Balance</u> <u>End of</u> <u>Year</u>	<u>Interest</u> <u>Paid</u>
10,000	5,000	5,000	575
<u>385,000</u>	<u>40,000</u>	<u>345,000</u>	<u>17,020</u>
<u>\$ 395,000</u>	<u>45,000</u>	<u>350,000</u>	<u>17,595</u>
<u>386,000</u>	<u>19,000</u>	<u>367,000</u>	<u>17,524</u>

City of Clarence

Notes to Financial Statements

June 30, 2002

(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, culture, recreation, public improvements and general administrative services.

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. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also 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. 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 through other funds.

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

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

Proprietary Funds

Enterprise Funds – The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Fiduciary Funds

Trust Funds – The Trust Funds are used to account for monies and properties received and held by the City in a trustee capacity. These include an expendable trust fund and non-expendable trust fund.

C. Basis of Accounting

The City of Clarence 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 column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column 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 Investments

The City's deposits in banks at June 30, 2002 were entirely covered by federal depository insurance or 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 Number 3.

(3) Notes Payable

General Obligation Capital Loan Notes Payable

On July 26, 1995 and May 1, 1999, the City of Clarence issued \$40,000 and \$475,000, respectively, of general obligation capital loan notes. The notes issued on May 1, 1999 were used to refund the City's general obligation essential corporate purpose bonds dated July 1, 1991. The essential corporate purpose bonds were called for redemption as of June 1, 1999.

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

Year Ending June 30,	General Obligation Capital Loan Notes	
	Principal	Interest
2003	\$ 45,000	15,628
2004	40,000	13,640
2005	40,000	11,920
2006	50,000	10,180
2007	50,000	7,980
2008	40,000	5,755
2009	40,000	3,955
2010	45,000	2,115
Total	<u>\$350,000</u>	<u>71,173</u>

Sewer Revenue Capital Loan Note

On May 30, 1996, the City entered into an agreement with the Iowa Finance Authority, the Department of Natural Resources and Wells Fargo Bank for the issuance of a \$477,000 sewer revenue capital loan note with interest at 4.54% per annum. The note is issued pursuant to the provisions of Sections 384.24A and 384.82 of the Code of Iowa for the purpose of paying costs of constructing improvements to the municipal sanitary sewer system. Annual debt service requirements to maturity for the notes are as follows:

Year Ending June 30,	Sewer Revenue Capital Loan Note	
	Principal	Interest
2003	\$ 19,000	16,662
2004	20,000	15,799
2005	21,000	14,891
2006	22,000	13,938
2007	23,000	12,939
2008	24,000	11,895
2009	25,000	10,805
2010	26,000	9,670
2011	28,000	8,490
2012	29,000	7,219
2013	30,000	5,902
2014	32,000	4,540
2015	33,000	3,087
2016	35,000	1,589
Total	<u>\$ 367,000</u>	<u>137,426</u>

The resolution providing for the issuance of the sewer revenue capital loan note includes the following provisions:

- (a) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to a separate sewer revenue reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying note principal and interest payments when insufficient money is available in the sinking account.

(4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2002 was \$12,067, equal to the required contribution for that year.

(5) Budget Overexpenditure

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 Community Protection and Policy and Administration Programs exceeded the amounts budgeted prior to amendment. Disbursements in the Community Protection Program exceeded the amended amount budgeted at June 30, 2002.

(6) Related Party Transactions

The City had business transactions totaling \$10,818 between the City and City officials and employees during the year ended June 30, 2002.

(7) Risk Management

The City of Clarence 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, 2002.

(8) Pending Litigation

The City is subject to pending litigation. The probability and amount of loss, if any, is undeterminable.

City of Clarence

Supplemental Information

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

	General	Fire Protection	Cemetery	Volunteer Fire Department
Receipts:				
Property tax	\$ 152,747	-	-	-
Other city tax:				
Mobile home tax	605	-	-	-
Local option sales tax	29,903	-	-	-
Utility tax replacement excise tax	5,312	-	-	-
	<u>35,820</u>	-	-	-
Licenses and permits	1,925	-	-	-
Use of money and property:				
Interest on investments	18,687	4,968	-	-
Rent	4,075	-	-	-
	<u>22,762</u>	<u>4,968</u>	-	-
Intergovernmental:				
State allocation	13,558	-	-	-
Bank franchise tax	1,600	-	-	-
County library allocation	3,810	-	-	-
Lowden/Stanwood police protection	53,523	-	-	-
Fire protection	-	15,271	-	-
Enrich Iowa	805	-	-	-
State step grant	523	-	-	-
State hazard mitigation grant	701	-	-	-
Cedar County Emergency Management Services	-	-	-	-
Township contributions	-	-	-	-
Township cemetery	400	-	-	-
	<u>74,920</u>	<u>15,271</u>	-	-
Charges for service:				
Ambulance trips and mileage	-	-	-	-
Supplies	-	-	-	-
Landfill	6,677	-	-	-
	<u>6,677</u>	-	-	-

Ambulance	Emergency Medical Technicians	Trees Forever	Sign Project	Total
-	-	-	-	152,747
-	-	-	-	605
-	-	-	-	29,903
-	-	-	-	5,312
-	-	-	-	35,820
-	-	-	-	1,925
5,780	-	29	-	29,464
-	-	-	-	4,075
5,780	-	29	-	33,539
-	-	-	-	13,558
-	-	-	-	1,600
-	-	-	-	3,810
-	-	-	-	53,523
-	-	-	-	15,271
-	-	-	-	805
-	-	-	-	523
-	-	-	-	701
1,600	-	-	-	1,600
2,730	-	-	-	2,730
-	-	-	-	400
4,330	-	-	-	94,521
96,717	-	-	-	96,717
5,600	-	-	-	5,600
-	-	-	-	6,677
102,317	-	-	-	108,994

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

	General	Fire Protection	Cemetery	Volunteer Fire Department
Receipts (continued):				
Miscellaneous:				
Court fines	3,380	-	-	-
Gas tax refund	639	-	-	-
Refunds and reimbursements	3,644	-	-	-
Library fines, fees and memorials	80	-	-	-
Donations and contributions	1,425	-	-	12,311
Miscellaneous	1,264	-	-	-
	<u>10,432</u>	-	-	<u>12,311</u>
Total receipts	<u>305,283</u>	<u>20,239</u>	-	<u>12,311</u>
Disbursements:				
Community Protection Program:				
Police:				
Personal services	92,761	-	-	-
Contractual services	19,862	-	-	-
Commodities	10,311	-	-	-
Capital outlay	14,461	-	-	-
	<u>137,395</u>	-	-	-
Fire:				
Personal services	1,700	-	-	2,820
Contractual services	6,061	-	-	444
Commodities	852	-	-	4,281
Capital outlay	67,626	-	-	11,661
	<u>76,239</u>	-	-	<u>19,206</u>
Ambulance:				
Personal services	-	-	-	-
Contractual services	350	-	-	-
Commodities	-	-	-	-
Capital outlay	-	-	-	-
	<u>350</u>	-	-	-
Civil Defense	<u>1,576</u>	-	-	-
Street lighting	<u>12,326</u>	-	-	-
	<u>227,886</u>	-	-	<u>19,206</u>

Ambulance	Emergency Medical Technicians	Trees Forever	Sign Project	Total
-	-	-	-	3,380
-	-	-	-	639
2,323	-	-	-	5,967
-	-	-	-	80
24,802	-	3,238	-	41,776
458	-	-	-	1,722
27,583	-	3,238	-	53,564
140,010	-	3,267	-	481,110
-	-	-	-	92,761
-	-	-	-	19,862
-	-	-	-	10,311
-	-	-	-	14,461
-	-	-	-	137,395
-	-	-	-	4,520
-	-	-	-	6,505
-	-	-	-	5,133
-	-	-	-	79,287
-	-	-	-	95,445
7,882	7,200	-	-	15,082
16,686	-	-	-	17,036
8,892	65	-	-	8,957
59,552	-	-	-	59,552
93,012	7,265	-	-	100,627
-	-	-	-	1,576
-	-	-	-	12,326
93,012	7,265	-	-	347,369

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

	General	Fire Protection	Cemetery	Volunteer Fire Department
Disbursements (continued):				
Human Development Program:				
Parks:				
Personal services	2,096	-	-	-
Contractual service	3,727	-	-	-
Commodities	1,603	-	-	-
Capital outlay	8,502	-	-	-
	<u>15,928</u>	-	-	-
Library:				
Personal service	10,791	-	-	-
Contractual services	4,561	-	-	-
Commodities	1,653	-	-	-
Capital outlay	3,870	-	-	-
	<u>20,875</u>	-	-	-
	<u>36,803</u>	-	-	-
Home and Community Environment Program:				
Cemetery:				
Contractual services	13,027	-	-	-
Street maintenance:				
Personal services	1,950	-	-	-
Contractual services	4,525	-	-	-
	<u>6,475</u>	-	-	-
Solid waste:				
Contractual service	8,298	-	-	-
Signs project	-	-	-	-
Trees Forever	-	-	-	-
	<u>27,800</u>	-	-	-
Policy and Administration Program:				
City Hall:				
Personal services	24,415	-	-	-
Contractual services	59,938	-	-	-
Commodities	4,166	-	-	-
	<u>88,519</u>	-	-	-
Total disbursements	<u>381,008</u>	-	-	<u>19,206</u>

Ambulance	Emergency Medical Technicians	Trees Forever	Sign Project	Total
-	-	-	-	2,096
-	-	-	-	3,727
-	-	-	-	1,603
-	-	-	-	8,502
-	-	-	-	15,928
-	-	-	-	10,791
-	-	-	-	4,561
-	-	-	-	1,653
-	-	-	-	3,870
-	-	-	-	20,875
-	-	-	-	36,803
-	-	-	-	13,027
-	-	-	-	1,950
-	-	-	-	4,525
-	-	-	-	6,475
-	-	-	-	8,298
-	-	-	70	70
-	-	5,281	-	5,281
-	-	5,281	70	33,151
-	-	-	-	24,415
-	-	-	-	59,938
-	-	-	-	4,166
-	-	-	-	88,519
93,012	7,265	5,281	70	505,842

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

	General	Fire Protection	Cemetery	Volunteer Fire Department
Excess (deficiency) of receipts over (under) disbursements	(75,725)	20,239	-	(6,895)
Other financing sources (uses):				
Operating transfers in (out):				
General:				
General		(32,283)	(14,986)	-
Fire Protection	32,283	-	-	-
Cemetery	14,986	-	-	-
Ambulance	-	-	-	-
Emergency Medical Technicians	-	-	-	-
Enterprise:				
Garbage and Recycling	(39,553)	-	-	-
Total other financing sources (uses)	7,716	(32,283)	(14,986)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(68,009)	(12,044)	(14,986)	(6,895)
Balance beginning of year	138,036	105,442	46,843	14,154
Balance end of year	<u>\$ 70,027</u>	<u>93,398</u>	<u>31,857</u>	<u>7,259</u>

See accompanying independent auditor's report.

Ambulance	Emergency Medical Technicians	Trees Forever	Sign Project	Total
46,998	(7,265)	(2,014)	(70)	(24,732)
-	-	-	-	(47,269)
-	-	-	-	32,283
-	-	-	-	14,986
-	7,150	-	-	7,150
(7,150)	-	-	-	(7,150)
-	-	-	-	(39,553)
(7,150)	7,150	-	-	(39,553)
39,848	(115)	(2,014)	(70)	(64,285)
98,493	560	5,943	4,228	413,699
138,341	445	3,929	4,158	349,414

Schedule 2

City of Clarence
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2002

	Road Use Tax	Urban Renewal Tax Increment	Total
Receipts:			
Tax increment financing collections	\$ -	5,554	5,554
Intergovernmental:			
Road use tax allocation	80,738	-	80,738
Total receipts	<u>80,738</u>	<u>5,554</u>	<u>86,292</u>
Disbursements:			
Home and Community Environment Program:			
Street maintenance:			
Personal services	13,380	-	13,380
Contractual services	31,487	-	31,487
Commodities	20,089	-	20,089
Total disbursements	<u>64,956</u>	<u>-</u>	<u>64,956</u>
Excess of receipts over disbursements	15,782	5,554	21,336
Other financing uses:			
Operating transfers out:			
Debt Service	-	(5,575)	(5,575)
Excess (deficiency) of receipts over (under) disbursements and other financing uses	15,782	(21)	15,761
Balance beginning of year	<u>111,258</u>	<u>2,590</u>	<u>113,848</u>
Balance end of year	<u>\$ 127,040</u>	<u>2,569</u>	<u>129,609</u>

See accompanying independent auditor's report.

City of Clarence
 Schedule of Cash Transactions
 Debt Service Fund
 Year ended June 30, 2002

Receipts:	
Property tax	<u>\$ 55,372</u>
Other city tax:	
Mobile home tax	218
Utility tax replacement excise tax	<u>1,906</u>
	<u>2,124</u>
Total receipts	<u>57,496</u>
Disbursements:	
Home and Community Environment Program:	
Debt service:	
Principal redemption	45,000
Interest payments	17,595
Administrative fees	<u>300</u>
	<u>62,895</u>
Deficiency of receipts under disbursements	(5,399)
Other financing sources:	
Operating transfers in:	
Special Revenue:	
Urban Renewal Tax Increment	<u>5,575</u>
Excess of receipts and other financing sources over disbursements	176
Balance beginning of year	<u>4,085</u>
Balance end of year	<u><u>\$ 4,261</u></u>

See accompanying independent auditor's report.

City of Clarence
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2002

	Water	Sewer Rental	Sewer Revenue Note Sinking
Receipts:			
Use of money and property:			
Interest on investments	\$ 62	-	-
Charges for service:			
Sale of water	62,420	-	-
Recycling fees	-	-	-
Residential garbage sticker sales	-	-	-
Commercial garbage	-	-	-
Sewer rental fees	-	59,876	-
Sales tax collected	3,375	712	-
Customer deposits	1,900	-	-
Miscellaneous	320	270	-
	<u>68,015</u>	<u>60,858</u>	<u>-</u>
Total receipts	68,077	60,858	-
Disbursements:			
Home and Community Environment Program:			
Personal services	26,460	15,358	-
Contractual services	41,999	8,910	-
Commodities	2,283	-	-
Capital outlay	-	-	-
Debt service:			
Principal redemption	-	-	19,000
Interest payments	-	-	17,524
Administrative fees	-	-	193
Total disbursements	70,742	24,268	36,717
Excess (deficiency) of receipts over (under) disbursements	(2,665)	36,590	(36,717)

Sewer Revenue Reserve	Garbage and Recycling	Total
2,767	-	2,829
-	-	62,420
-	37,190	37,190
-	13,778	13,778
-	6,240	6,240
-	-	59,876
-	98	4,185
-	-	1,900
-	-	590
-	57,306	186,179
2,767	57,306	189,008
-	14,891	56,709
-	21,821	72,730
-	1,768	4,051
-	5,000	5,000
-	-	19,000
-	-	17,524
-	-	193
-	43,480	175,207
2,767	13,826	13,801

City of Clarence
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2002

	Water	Sewer Rental	Sewer Revenue Note Sinking
Other financing sources (uses):			
Operating transfers in (out):			
General:			
General	-	-	-
Enterprise:			
Sewer Rental	-	-	36,645
Sewer Revenue Note Sinking	-	(36,645)	-
Total other financing sources (uses)	-	(36,645)	36,645
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(2,665)	(55)	(72)
Balance beginning of year	50,410	39,738	3,059
Balance end of year	\$ 47,745	39,683	2,987

See accompanying independent auditor's report.

Sewer Revenue Reserve	Garbage and Recycling	Total
-	39,553	39,553
-	-	36,645
-	-	(36,645)
-	39,553	39,553
2,767	53,379	53,354
40,319	91	133,617
43,086	53,470	186,971

Schedule 5

City of Clarence

Combining Schedule of Cash Transactions

Trust Funds

Year ended June 30, 2002

	Expendable Trust	Non- Expendable Trust	
	Library Gifts and Bequests	Mabel L. Woods Cemetery Trust	Total
Receipts:			
Use of money and property:			
Interest on investments	\$ 20	-	20
Miscellaneous:			
Donations and contributions	175	-	175
Total receipts	195	-	195
Disbursements:			
None	-	-	-
Excess of receipts over disbursements	195	-	195
Balance beginning of year	1,760	3,000	4,760
Balance end of year	\$ 1,955	3,000	4,955

See accompanying independent auditor's report.

City of Clarence

Note Maturities

June 30, 2002

Year Ending June 30,	General Obligation Capital Loan Notes					Total	Sewer Revenue Capital Loan Note Sewer Improvement	
	Industrial Park and Urban Renewal Issued July 26, 1995		Water Refunding Issued May 1, 1999		Issued May 30, 1996			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates		Amount	
2003	5.75%	\$ 5,000	4.25%	\$ 40,000	45,000	4.54%	\$ 19,000	
2004		-	4.30	40,000	40,000	4.54	20,000	
2005		-	4.35	40,000	40,000	4.54	21,000	
2006		-	4.40	50,000	50,000	4.54	22,000	
2007		-	4.45	50,000	50,000	4.54	23,000	
2008		-	4.50	40,000	40,000	4.54	24,000	
2009		-	4.60	40,000	40,000	4.54	25,000	
2010		-	4.70	45,000	45,000	4.54	26,000	
2011		-		-	-	4.54	28,000	
2012		-		-	-	4.54	29,000	
2013		-		-	-	4.54	30,000	
2014		-		-	-	4.54	32,000	
2015		-		-	-	4.54	33,000	
2016		-		-	-	4.54	35,000	
Total		<u>\$ 5,000</u>		<u>\$ 345,000</u>	<u>350,000</u>		<u>\$ 367,000</u>	

See accompanying independent auditor's report.

City of Clarence



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

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Clarence, Iowa, as of and for the year ended June 30, 2002, and have issued our report thereon dated March 4, 2003. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion 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 Clarence'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 of Clarence'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. Prior audit statutory comments have been resolved, except for items (2), (3), (5) and (7).

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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 Clarence's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings.

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

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.

March 4, 2003

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

City of Clarence

Schedule of Findings

Year ended June 30, 2002

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- (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. One person had control over each of the following areas:
- | | |
|--|---|
| (1) Cash - preparing bank account reconciliations, initiating cash receipts and disbursements functions and handling and recording cash. | City Clerk, Ambulance, Emergency Medical Technicians, Volunteer Fire Department, Trees Forever and Sign Project |
| (2) Investments - detailed record keeping custody of investments and reconciling earnings. | City Clerk, Ambulance, Emergency Medical Technicians, Volunteer Fire Department, Trees Forever and Sign Project |
| (3) Receipts - collecting, depositing, journalizing and posting. | City Clerk, Ambulance, Emergency Medical Technicians, Volunteer Fire Department, Trees Forever and Sign Project |
| (4) Utility receipts - billing, collecting, depositing, posting and reconciling. | City Clerk |
| (5) Disbursements - purchasing, recording and reconciling. | City Clerk, Ambulance, Emergency Medical Technicians, Volunteer Fire Department, Trees Forever and Sign Project |
| (6) Payroll - preparing and distributing. | City Clerk, Ambulance, Emergency Medical Technicians, Volunteer Fire Department, Trees Forever and Sign Project |
| (7) Information system (computer usage) - performing all general accounting functions and controlling all data input and output. | City Clerk |

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

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

Response -

City - We will review our control activities and utilize City officials, Council Members, and City staff to maximize internal control.

Others - We will utilize City officials where possible to strengthen controls.

Conclusion - Response accepted.

- (B) Reconciliation of Utility Billings, Collections and Delinquencies - Utility billings, collections and delinquencies accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits.

Recommendation - Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and also to reconcile utility collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response - We will have the Clerk reconcile utility billings, collections, and delinquencies. All will be reviewed at Council Meetings.

Conclusion - Response acknowledged. As noted in item (A), the City Clerk has control over the utility receipts function. To increase internal control over this function, an independent individual should review the reconciliations prepared by the City Clerk. The review should be evidenced by signing and dating the reconciliation. The Council should also review the reconciliation and monitor the delinquent accounts.

- (C) Records of Accounts - The Clarence Ambulance Service, Emergency Medical Technicians, Volunteer Fire Department, Trees Forever, and Sign Project maintain the accounting records pertaining to these operations. These transactions and the resulting balances are not recorded in the City Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose".

Recommendation - For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's annual budget and the City Clerk's records.

Response - We will obtain information on the financial activity and balances and have budgetary control of all City accounts in the City Clerk's records.

Conclusion - Response accepted.

- (D) Information System - The City does not have written policies for:

- requiring password changes because software does not require the user to change logins/passwords periodically or to maintain password privacy.
- usage of the Internet.

City of Clarence

Schedule of Findings

Year ended June 30, 2002

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

Recommendation - The City should develop written policies addressing the above items in order to improve the City's control over its information system. A written disaster recovery plan should be developed.

Response - The City is in the process of developing these written policies. When they are done they will be presented to the City Council for approval.

Conclusion - Response accepted.

- (E) Timesheets - Timesheets/timecards were not available for all employees and those that were available were not approved by the employee's supervisor or an independent individual. Also, certain pay rate increases for employees were not approved in the minutes by the Council.

Recommendation - All City employees should have timesheets/timecards and the timesheets/timecards should be approved by the employee's supervisor or an independent individual other than the City Clerk. Also, the Council should document approved increases in pay rates in the minutes.

Response - We will be implementing controls and make sure all time sheets are reviewed and signed. We will make sure that all part-time pay rates are noted in the minutes or by resolution.

Conclusion - Response accepted.

- (F) Payroll - The Clarence Volunteer Fire Department and Clarence Emergency Medical Technicians employee wages were not included in payroll records and, as a result, the required deductions for federal tax, state tax, FICA and IPERS were not made and paid to the appropriate agencies. Also, the City has not prepared IRS forms W-2 and 941. The Clarence Ambulance Service did not withhold IPERS from employees' wages.

Recommendation - The City should consult with the Internal Revenue Service, Iowa Department of Revenue and Finance and IPERS to resolve these matters.

Response - We will consult legal counsel and IPERS to further inspect this matter.

Conclusion - Response accepted.

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

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories - A resolution naming the official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2002.
- (2) Certified Budget - Disbursements at June 30, 2002, exceeded the amended amount budgeted in the Community Protection Program. Also, disbursements in the Community Protection and Policy and Administration Programs exceeded the amounts budgeted before a budget amendment was made. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response - We will attempt to comply in the future. We will review our disbursements on a monthly basis to ensure this doesn't happen again.

Conclusion - Response accepted.

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

Paid to	Purpose	Amount
<u>Clarence Ambulance Service Transactions:</u>		
Shirts-N-Stuff	Shirts	\$ 650
Doris Flower Shop	Flowers	53
J & J Grocery	Gift Certificates for Christmas Gifts	400
Lange's	Gift Certificates for Christmas Gifts	150
3/30 Golf & Country Club	EMT Appreciation Brunch	352
<u>Clarence Volunteer Fire Department Transactions:</u>		
Wal-Mart	Grill	189
Daisy's on the Square	Plant and Flowers	64
3/30 Golf & Country Club	Breakfast and Golf and Cart Rental	217
Family Foods	Beverages	51

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

Paid to	Purpose	Amount
Lange's Grocery	Miscellaneous groceries, beverages and Gift Certificates	129
Movies America	Gift Certificates	10
Shirts-N-Stuff	Gift Certificates, Embroidered Hats and Shirts	1,572
Roberts Co, Inc.	24 Ceramic Banks	192
New Life Industries	NYFD T-shirts and Coats	99
Unknown	Gift Certificates	40

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. The Clarence Ambulance Service and Clarence Volunteer Fire Department do not have written policies addressing these issues.

Recommendation - The Clarence Ambulance and Service Clarence Volunteer Fire Department should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the Clarence Ambulance Service and Clarence Volunteer Fire Department should establish written policies and procedures, including the requirement for proper documentation.

Response - We will try to get Not For Profit status for the Volunteer Fire Department and adopt written policies and procedures.

Conclusion - Response acknowledged. The Clarence Ambulance Service should also establish written policies and procedures. Also, these policies should be reviewed and approved by the City Council for consistency with City policies.

- (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
Bonnie Hunwardsen, Council Member, husband owns Hunwardsen Equipment	Postage, repair, and parts	\$ 3,870
Todd Thein, Council Member, employee of Their Motor Sales	Labor, parts, repair, and maintenance	4,068
Brian Wendel, Maintenance Employee, owner of Graphix Plus	Printing and lettering	2,880

City of Clarence

Schedule of Findings

Year ended June 30, 2002

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions above may represent conflicts of interest since the cumulative total for each exceeds \$2,500 during the fiscal year.

Recommendation – The City should consult legal counsel to determine the disposition of these matters.

Response – We are aware of these matters and want to keep the money in the City. We will consult legal counsel.

Conclusion – Response accepted.

- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. The Clarence Ambulance Service Board minutes were not signed.

Recommendation – The City should publish minutes within fifteen days as required by Chapter 372 of the Code of Iowa. The Clarence Ambulance Service Board should sign the minutes to authenticate the record.

Response – We will ensure that the minutes are published within fifteen days.

Conclusion – Response accepted. The Clarence Ambulance Service Board Secretary should also sign the minutes to authenticate the record.

- (8) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (9) Sewer Revenue Capital Loan Notes – The City has complied with the provisions of the sewer revenue capital loan note resolution.

City of Clarence

Staff

This audit was performed by:

K. David Voy, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Beth A. Wichtendahl, CPA, Staff Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State