



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

March 31, 2011

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$4,003,403 for the year ended June 30, 2010, a 108 percent increase over the prior year. The receipts included \$422,921 in property and other city tax, \$1,070,868 from charges for service, \$247,519 from operating grants, contributions and restricted interest, \$101,529 from local option sales tax, \$5,043 from unrestricted interest on investments, \$2,150,068 from bond/note proceeds and \$5,455 from other general receipts.

Disbursements for the year totaled \$3,834,934, a 119 percent increase over the prior year, and included \$246,425 for public works, \$196,127 for public safety and \$158,536 for culture and recreation. Disbursements for business type activities totaled \$3,039,258, including \$1,720,497 for capital projects.

The significant increase in receipts and disbursements is primarily due to approximately \$1,786,000 of bond proceeds received to help pay the costs associated with a wastewater treatment project.

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/1021-0251-B00F.pdf>.

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CITY OF LEON

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

JUNE 30, 2010

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City of Leon

Officials

(Before January 2010)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jo Beth Smith	Mayor	Jan 2012
Charles Decker	Mayor Pro-tem	Jan 2010
Keith Hinds	Council Member	Jan 2010
Larry Moffett	Council Member	Jan 2010
Pete Buckingham	Council Member	Jan 2012
Jacob Stone	Council Member	Jan 2012
Angela Blades	Clerk/Treasurer	Indefinite
Pat Greenwood	Attorney	Indefinite

(After January 2010)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jo Beth Smith	Mayor	Jan 2012
Pete Buckingham	Mayor Pro-tem	Jan 2012
Jacob Stone	Council Member	Jan 2012
Keith Hinds	Council Member	Jan 2014
Robert Kilgore	Council Member	Jan 2014
Larry Moffett	Council Member	Jan 2014
Angela Blades	Clerk/Treasurer	Indefinite
Pat Greenwood	Attorney	Indefinite

City of Leon



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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 Leon, 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 Leon's management. Our responsibility is to express opinions on these financial statements based on our audit.

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.

In our opinion, 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 Leon as of June 30, 2010, and the respective changes in its 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 March 15, 2011 on our consideration of the City of Leon'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 30 through 32 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 Leon's basic financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 15, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Leon 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.

2010 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental funds increased approximately \$129,000, due primarily to receipts and transfers in excess of disbursements in the General Fund and the Special Revenue, Local Option Sales Tax Fund.
- The City's total cash basis net assets for the City's business type activities increased approximately \$40,000 due to increases in water, sewer and refuse disposal charges.

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. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system and refuse disposal. 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, Employee Benefits and Local Option Sales Tax, 3) the Debt Service Fund and 4) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for water, sewer and refuse disposal operations.

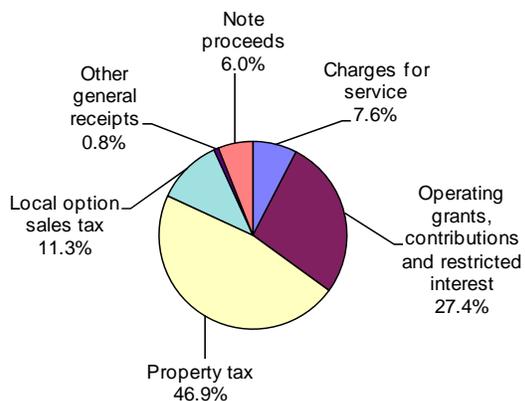
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

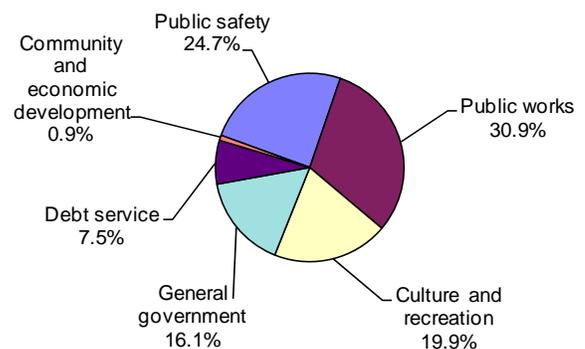
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from approximately \$750,000 to approximately \$879,000.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service	\$ 69	77
Operating grants, contributions and restricted interest	247	262
Capital grants, contributions and restricted interest	-	2
General receipts:		
Property tax	423	476
Local option sales tax	102	92
Note proceeds	54	-
Other general receipts	7	11
Total receipts	902	920
Disbursements:		
Public safety	196	202
Public works	246	215
Culture and recreation	158	201
Community and economic development	7	-
General government	128	75
Debt service	60	125
Capital projects	-	4
Total disbursements	795	822
Change in cash basis net assets before transfers	107	98
Transfers, net	22	-
Change in cash basis net assets	129	98
Cash basis net assets beginning of year	750	652
Cash basis net assets end of year	\$ 879	750

Receipts by Source



Disbursements by Function



The cash basis net assets of the City's governmental activities increased 17%, or approximately \$129,000, due primarily to increases in the cash balances of the General Fund and the Special Revenue, Road Use Tax, Employee Benefits and Local Option Sales Tax Funds.

Changes in Cash Basis Net Assets of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 563	547
Sewer	179	175
Refuse disposal	260	245
Operating grants, contributions and restricted interest	-	3
General receipts:		
Unrestricted interest on investments	3	5
Note proceeds	2,096	27
Total receipts	<u>3,101</u>	<u>1,002</u>
Disbursements:		
Water	547	535
Sewer	2,252	162
Refuse disposal	240	232
Total disbursements	<u>3,039</u>	<u>929</u>
Change in cash basis net assets before transfers	62	73
Transfers, net	<u>(22)</u>	<u>-</u>
Change in cash basis net assets	40	73
Cash basis net assets beginning of year	<u>646</u>	<u>573</u>
Cash basis net assets end of year	<u>\$ 686</u>	<u>646</u>

The cash basis net assets of the City's business type activities increased 6.2%, or approximately \$40,000 over the prior year balance. Receipts and disbursements increased approximately \$2,099,000 and \$2,110,000, respectively. These increases were due to a wastewater treatment project started during fiscal year 2010. The project was funded through the issuance of revenue bonds.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Leon completed the year, its governmental funds reported a combined fund balance of approximately \$879,000, an increase of approximately \$129,000 above last year's total of approximately \$750,000. 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 \$58,500 over the prior year to approximately \$279,000. The increase is primarily due to a corrective transfer from the Special Revenue, Economic Development Fund during fiscal year 2010 and a \$20,000 transfer (loan) from the Enterprise, Water Fund to repair streets.
- The Special Revenue, Road Use Tax Fund cash balance increased approximately \$6,000 to approximately \$9,300 during the year. Road use tax receipts increased 6.5% while disbursements increased only .2%.

- The Special Revenue, Employee Benefits Fund cash balance increased approximately \$27,700 to approximately \$102,300 during the year, due in part to a decrease in the health insurance premiums in fiscal year 2010. Property and other city tax receipts also increased slightly, by 1.3%.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased approximately \$60,700 to approximately \$353,000 during the year. The increase was due to local option sales tax receipts exceeding amounts paid on the revenue bond.
- The Special Revenue, Economic Development Fund cash balance decreased approximately \$16,000 to a balance of approximately \$52,600 at June 30, 2010. The decrease is primarily due to a \$13,519 corrective transfer made to the General Fund during the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased approximately \$2,800, or .6%, to approximately \$449,000.
- The Sewer Fund cash balance increased approximately \$21,700, or 14.8%, to approximately \$168,000, due primarily to a rate increase.
- The Refuse Disposal Fund cash balance increased approximately \$21,000, or 43.4%, to approximately \$69,300, due primarily to a rate increase.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget three times. The amendments were approved on December 28, 2009, May 24, 2010 and June 28, 2010. The amendments resulted in an increase in operating disbursements of \$410,678 and capital outlay related to a wastewater treatment project of \$2,178,570. The City had sufficient cash balances to absorb the additional operating costs and revenue bond proceeds to cover the wastewater treatment project costs. The City’s receipts were \$20,347, or 1.1%, less than the amended budgeted. Total disbursements were \$472,580, or 11%, less than the amended budget.

DEBT ADMINISTRATION

At June 30, 2010, the City had approximately \$2,758,000 in bonds, notes and other long-term debt outstanding, compared to approximately \$1,013,000 last year, as shown below.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2010	2009
General obligation notes	\$ 54	17
Local option sales tax revenue bonds	185	215
Water revenue bond	717	754
Sewer interim project note	-	27
Sewer revenue bonds	1,786	-
Purchase agreement	16	-
Total	\$ 2,758	1,013

Debt increased as a result of the City issuing sewer revenue bonds during fiscal year 2010. In addition, the City borrowed \$54,000 to rehabilitate a dilapidated property.

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 \$239,000, which includes local option sales tax revenue bonds of \$185,000, is less than its constitutional debt limit of approximately \$2,517,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Leon's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates and fees charged for various City activities.

The fiscal year 2011 budget contains total receipts of approximately \$1,814,000 and disbursements of approximately \$1,793,000.

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 Angela Blades, City Clerk/Treasurer, P.O. Box 210, Leon, Iowa 50144.

Basic Financial Statements

City of Leon

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	\$ 196,127	6,707	34,831
Public works	246,425	4,737	190,092
Culture and recreation	158,536	29,634	16,591
Community and economic development	6,628	-	
General government	128,142	28,231	4,195
Debt service	59,818	-	1,510
Total governmental activities	795,676	69,309	247,219
Business type activities:			
Water	547,202	562,234	300
Sewer	2,252,396	179,112	-
Refuse disposal	239,660	260,213	-
Total business type activities	3,039,258	1,001,559	300
Total	\$ 3,834,934	1,070,868	247,519
General Receipts and Transfers:			
Property and other city tax levied for:			
General purposes			
Debt service			
Local option sales tax			
Unrestricted interest on investments			
Bond/note proceeds			
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:			
Permanent funds			
Expendable:			
Debt service			
Sewer replacement			
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
(154,589)	-	(154,589)
(51,596)	-	(51,596)
(112,311)	-	(112,311)
(6,628)	-	(6,628)
(95,716)	-	(95,716)
(58,308)	-	(58,308)
(479,148)	-	(479,148)
-	15,332	15,332
-	(2,073,284)	(2,073,284)
-	20,553	20,553
-	(2,037,399)	(2,037,399)
(479,148)	(2,037,399)	(2,516,547)
403,671	-	403,671
19,250	-	19,250
101,529	-	101,529
1,929	3,114	5,043
54,000	2,096,068	2,150,068
5,455	-	5,455
21,887	(21,887)	-
607,721	2,077,295	2,685,016
128,573	39,896	168,469
749,979	646,561	1,396,540
\$ 878,552	686,457	1,565,009
\$ 63,804	-	63,804
58,853	5,699	64,552
-	93,869	93,869
476,893	-	476,893
279,002	586,889	865,891
\$ 878,552	686,457	1,565,009

City of Leon

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

As of and for the year ended June 30, 2010

	Special		
	General	Road Use Tax	Employee Benefits
Receipts:			
Property tax	\$ 269,876	-	102,930
Other city tax	16,586	-	6,349
Licenses and permits	22,194	-	-
Use of money and property	6,854	-	495
Intergovernmental	62,638	175,285	-
Charges for service	25,625	-	-
Miscellaneous	25,583	-	-
Total receipts	429,356	175,285	109,774
Disbursements:			
Operating:			
Public safety	154,994	-	41,133
Public works	45,406	169,300	31,719
Culture and recreation	140,021	-	6,926
Community and economic development	-	-	-
General government	125,884	-	2,258
Debt service	-	-	-
Total disbursements	466,305	169,300	82,036
Excess (deficiency) of receipts over (under) disbursements	(36,949)	5,985	27,738
Other financing sources (uses):			
Note proceeds	54,000	-	-
Operating transfers in	41,449	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	95,449	-	-
Net change in cash balances	58,500	5,985	27,738
Cash balances beginning of year	220,502	3,304	74,537
Cash balances end of year	\$ 279,002	9,289	102,275
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	279,002	-	-
Special revenue funds	-	9,289	102,275
Permanent funds	-	-	-
Total cash basis fund balances	\$ 279,002	9,289	102,275

See notes to financial statements.

Revenue				
	Local Option Sales Tax	Economic Development	Nonmajor	Total
	-	-	25,696	398,502
	101,529	-	1,484	125,948
	-	-	-	22,194
	1,500	725	87	9,661
	-	-	-	237,923
	-	-	-	25,625
	-	1,500	1,426	28,509
	103,029	2,225	28,693	848,362
	-	-	-	196,127
	-	-	-	246,425
	-	-	11,589	158,536
	-	6,628	-	6,628
	-	-	-	128,142
	42,365	-	17,453	59,818
	42,365	6,628	29,042	795,676
	60,664	(4,403)	(349)	52,686
	-	-	-	54,000
	-	1,887	-	43,336
	-	(13,519)	(7,930)	(21,449)
	-	(11,632)	(7,930)	75,887
	60,664	(16,035)	(8,279)	128,573
	292,264	68,681	90,691	749,979
	352,928	52,646	82,412	878,552
	43,657	-	15,196	58,853
	-	-	-	279,002
	309,271	52,646	3,412	476,893
	-	-	63,804	63,804
	352,928	52,646	82,412	878,552

City of Leon

City of Leon

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	Refuse Disposal	
Operating receipts:				
Charges for service	\$ 562,234	179,112	260,213	1,001,559
Miscellaneous	300	-	-	300
Total operating receipts	562,534	179,112	260,213	1,001,859
Operating disbursements:				
Business type activities	485,697	154,237	239,660	879,594
Excess of operating receipts over operating disbursements	76,837	24,875	20,553	122,265
Non-operating receipts (disbursements):				
Interest on investments	1,902	775	437	3,114
Bond/note proceeds (net of \$37,230 initiation fee)	-	2,096,068	-	2,096,068
Debt service	(61,505)	(377,662)	-	(439,167)
Capital projects		(1,720,497)		(1,720,497)
Net non-operating receipts (disbursements)	(59,603)	(1,316)	437	(60,482)
Excess of receipts over disbursements	17,234	23,559	20,990	61,783
Transfers out	(20,000)	(1,887)	-	(21,887)
Net change in cash balances	(2,766)	21,672	20,990	39,896
Cash balances beginning of year	451,860	146,366	48,335	646,561
Cash balances end of year	\$ 449,094	168,038	69,325	686,457
Cash Basis Fund Balances				
Reserved for debt service	\$ 5,699	4,170	-	9,869
Unreserved	443,395	163,868	69,325	676,588
Total cash basis fund balances	\$ 449,094	168,038	69,325	686,457

See notes to financial statements.

City of Leon

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

The City of Leon is a political subdivision of the State of Iowa located in Decatur County. It was first incorporated in 1867 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 and recreation and general government services. The City also provides water, sewer and refuse disposal utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Leon 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 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: Decatur County Assessor's Conference Board, Decatur County Emergency Management Commission, Wayne, Ringgold and Decatur County Solid Waste Management Commission and Decatur County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

Restricted nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Funds.

Restricted expendable 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 funds are aggregated and reported as nonmajor governmental or proprietary 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 Employee Benefits Fund is used to pay payroll taxes and employee benefits of the City that are not paid through an Enterprise Fund.

The Local Option Sales Tax Fund is used to account for reserves needed to repay the City's swimming pool debt and related pool maintenance.

The Economic Development Fund is used to account for economic development activities.

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 Refuse Disposal Fund accounts for the City's refuse disposal operations.

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 paid, there are both restricted and unrestricted cash basis net assets available to finance the programs. 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 did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 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, as amended by Statement No. 40.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30,	Local Option Sales Tax Revenue Bonds		Water Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2011	\$ 35,000	10,375	39,000	21,510	128,000
2012	35,000	8,485	40,000	20,340	75,000	28,825
2013	35,000	6,560	41,000	19,140	76,000	25,700
2014	40,000	4,600	42,000	17,910	82,000	22,510
2015	40,000	2,320	43,000	16,650	83,000	18,970
2016 - 2020	-	-	237,000	62,970	237,000	62,970
2021 - 2025	-	-	275,000	25,230	275,000	25,230
Total	\$185,000	32,340	717,000	183,750	956,000	218,940

Local Option Sales Tax Revenue Bonds

The City has pledged future local option sales tax revenue to repay \$400,000 of swimming pool revenue bonds issued May 1, 2002. Proceeds from the bonds were used to construct and equip a new municipal swimming pool and associated facility. The bonds are payable solely from the 1% local option sales tax and are payable through 2015. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. The total principal and interest remaining to be paid on the bonds is \$217,340. For the year ended June 30, 2010, principal and interest paid and local option sales tax receipts were \$41,965 and \$101,529, respectively. Annual principal and interest payments on the bonds required 41% of local option sales tax receipts.

The resolution providing for the issuance of the local option sales tax revenue bonds includes the following provisions:

- (a) \$40,000 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account.
- (b) All revenues received from the local option sales tax shall be placed in a revenue account.
- (c) Sufficient monthly transfers shall be made to a local option sales tax revenue bond sinking account to pay the principal and interest requirements on the revenue bonds for the fiscal year.

Water Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$896,000 of water revenue bonds issued April 22, 2005. Proceeds from the bonds provided financing for water treatment plant improvements. The bonds are payable solely from water customer net receipts and are payable through 2025. The total principal and interest remaining to be paid on the bonds is \$900,750. For the year ended June 30, 2010, principal and interest paid and total customer net receipts were \$59,620 and \$76,837, respectively. During the current year, annual principal and interest payments on the bonds required 77.6% of net receipts.

The resolution providing for the issuance of the water revenue bonds issued under a loan agreement between the City of Leon, the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a water revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) The City will establish rates sufficient to meet the operation and maintenance expenses of the water system and to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bonds falling due in the same year.

Sewer Revenue Bond, Series 2010A

On February 16, 2010, the City entered into a loan agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources (DNR) for the issuance of a sewer revenue bond of up to \$3,723,000 with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bond was issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the municipal wastewater treatment system. The City will draw down funds from the DNR upon request to reimburse the City for costs as they are incurred. At June 30, 2010, the City had drawn down \$411,293 of the authorized amount. An initiation fee of \$37,230 (1% of the authorized borrowing for the sewer revenue bond) was charged by the Iowa Finance Authority. The total initiation fee was withheld from the first proceeds of the sewer revenue bond drawn by the City during the year ended June 30, 2010. A final repayment schedule has not yet been adopted. During the year ended June 30, 2010, the City paid interest of \$3,599 on the bond under a preliminary repayment schedule.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the sewer revenue bond. The bond is payable solely from sewer customer net receipts. Annual interest payments on the bond required 14% of net receipts. The total amount of principal and interest remaining to be paid on the bond at June 30, 2010 is not available since a final repayment schedule has not been adopted. For the current year, interest paid and total customer net receipts were \$3,599 and \$24,875, respectively.

The resolution providing for the issuance of the sewer revenue bond issued under the loan agreement includes the following provisions:

- a) The bond will only be redeemed from the future earnings of the enterprise activity and the bond holder holds a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- c) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bond falling due in the same year.

Forgivable Loan

On February 16, 2010, the City entered into a forgivable loan agreement with the Iowa Finance Authority, and the Iowa Department of Natural Resources (DNR) for the issuance of a \$2,000,000 forgivable sewer revenue bond. The bond was issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa and the American Recovery and Investment Act of 2009 (ARRA) for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the municipal wastewater treatment system of the City. If the requirements of ARRA, including but not limited to satisfaction of applicable timing requirements, are not met and the loan is not forgiven, the City will pay interest at 3.0% per annum, an annual .25% servicing fee on the outstanding principal balance (including undisbursed loan proceeds) and an initiation fee of 1% of the authorized loan. The City will draw down funds from the DNR upon request to reimburse the City for costs as they are incurred. At June 30, 2010, the City had drawn down \$1,374,942 of the authorized amount.

General Obligation Note

On February 3, 2010, the City issued a \$54,000 general obligation property restoration note for the purpose of paying the costs associated with acquisition, demolition and restoration of a dangerous and dilapidated property. The note was issued pursuant to Chapter 384.24A of the Code of Iowa. The note bears interest at 3.95% per annum and is payable in full on June 1, 2011. During the year ended June 30, 2010, the City made no principal or interest payments on the note.

Purchase Agreement

On March 9, 2010, the City entered into a purchase agreement, in the form of a credit card, to purchase two lawn mowers for a total of \$16,610 at a promotional rate of 1.9% per annum. The agreement requires monthly principal and interest payments for a period of 36 months. During the year ended June 30, 2010, the City paid principal of \$905 and interest of \$52 under this agreement.

(4) Operating Lease Agreement

The City entered into a lease during the year end June 30, 2010. The City is leasing a copier, printer and fax machine. The lease has been classified as an operating lease and, accordingly, all rents are charged to expense as incurred. The lease expires March 5, 2014.

The following is a schedule of future minimum rental payments required under the operating lease which has an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2010:

Year Ending June 30,	Amount
2011	\$ 1,157
2012	1,157
2013	1,157
2014	772
Total	<u>\$ 4,243</u>

(5) 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 contributions to IPERS for the years ended June 30, 2010 and 2009 were \$35,203 and \$34,358, respectively, equal to the required contribution for each year.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory and sick leave payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 26,800
Compensatory	20,700
Sick leave	6,600
Total	<u>\$ 54,100</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

(7) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 16 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 would pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members range from \$385 to \$487 for single coverage and \$681 to \$1,141 for family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2010, the City contributed \$131,423 and plan members eligible for benefits contributed \$4,353 to the plan.

(8) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Economic Development	\$ 13,519
	Emergency	7,930
	Enterprise:	
	Water	20,000
		<u>41,449</u>
Special Revenue:	Enterprise:	
Economic Development	Sewer	1,887
		<u>\$ 43,336</u>

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

(9) Risk Management

The City 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 from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Contract with Southern Iowa Rural Water Association (SIRWA)

The City has entered into an agreement with Southern Iowa Rural Water Association (SIRWA) to sell up to 250,000 gallons of water per day to SIRWA. The rate effective at June 30, 2010 is \$1.69/1,000 gallons, with the provision the rate per 1,000 gallons is subject to annual review based on changes in production costs. The rate increases to \$2.15 per 1,000 gallons effective December 1, 2010. The agreement covers a 40 year period ending August 31, 2046.

(11) Related Organization

The Low Rent Housing Agency of Leon, Iowa is a related organization to the City. The Agency was created by resolution of the City Council as a public body corporate and politic as provided in Section 403A.5 of the Code of Iowa. The City appoints all of the Low Rent Housing Agency's governing board, but the City is not financially accountable for the Agency.

(12) Construction Commitment

At June 30, 2010, the City had entered into a construction contract for \$4,878,700 for construction of a wastewater treatment facility. As of June 30, 2010, costs of \$1,199,631 had been paid on the contract. The remaining \$3,679,069 will be paid as work on the project progresses.

(13) Subsequent Event

On August 19, 2010, the City entered into an escrow agreement with Bankers Trust Company (Agent) to retire \$185,000 of local option sales tax revenue bonds scheduled to mature June 1, 2011 through June 1, 2015. Pursuant to the agreement, the City will deposit \$205,110 of immediately available funds with the Agent. These funds are to be used by the Agent to pay principal of and interest on the bonds to and including the June 1, 2012 redemption date and prepay principal of the remaining bonds on that same date.

Required Supplementary Information

City of Leon
 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	Total
Receipts:			
Property tax	\$ 398,502	-	398,502
Other city tax	126,024	-	126,024
Licenses and permits	22,194	-	22,194
Use of money and property	9,585	3,114	12,699
Intergovernmental	237,923	-	237,923
Charges for service	25,625	1,001,859	1,027,484
Miscellaneous	28,509	-	28,509
Total receipts	<u>848,362</u>	<u>1,004,973</u>	<u>1,853,335</u>
Disbursements:			
Public safety	196,127	-	196,127
Public works	246,425	-	246,425
Culture and recreation	158,536	-	158,536
Economic development	6,628	-	6,628
General government	128,142	-	128,142
Debt service	59,818	-	59,818
Business type activities	-	3,039,258	3,039,258
Total disbursements	<u>795,676</u>	<u>3,039,258</u>	<u>3,834,934</u>
Excess (deficiency) of receipts over (under) disbursements	52,686	(2,034,285)	(1,981,599)
Other financing sources, net	<u>75,887</u>	<u>2,074,181</u>	<u>2,150,068</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	128,573	39,896	168,469
Balances beginning of year	<u>749,979</u>	<u>646,561</u>	<u>1,396,540</u>
Balances end of year	<u>\$ 878,552</u>	<u>686,457</u>	<u>1,565,009</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
394,441	394,441	4,061
126,750	126,750	(726)
14,635	14,635	7,559
10,250	10,250	2,449
194,640	261,977	(24,054)
1,036,398	1,036,398	(8,914)
14,950	29,231	(722)
1,792,064	1,873,682	(20,347)
223,203	270,355	74,228
208,834	251,826	5,401
146,122	175,005	16,469
69,898	7,500	872
59,879	138,209	10,067
3,500	279,219	219,401
1,006,830	3,185,400	146,142
1,718,266	4,307,514	472,580
73,798	(2,433,832)	452,233
-	2,604,347	(454,279)
73,798	170,515	(2,046)
1,310,769	1,310,769	85,771
1,384,567	1,481,284	83,725

City of Leon

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

Formal and legal budgetary control is based upon nine 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 Funds and the Enterprise 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, three budget amendments increased budgeted disbursements by \$2,589,248, primarily due to the sewer project. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

City of Leon

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			
	Cemetery Trust	Library Trust	Parks and Recreation	Emergency
Receipts:				
Property tax	\$ -	-	-	7,469
Other city tax	-	-	-	461
Use of money and property	76	-	-	-
Miscellaneous	-	1,051	-	-
Total receipts	76	1,051	-	7,930
Disbursements:				
Operating:				
Culture and recreation	7,786	1,050	2,753	-
Debt service	-	-	-	-
Total disbursements	7,786	1,050	2,753	-
Excess (deficiency) of receipts over (under) disbursements	(7,710)	1	(2,753)	7,930
Other financing uses:				
Operating transfers out	-	-	-	(7,930)
Net change in cash balances	(7,710)	1	(2,753)	-
Cash balances beginning of year	9,802	1,319	2,753	-
Cash balances end of year	\$ 2,092	1,320	-	-
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	-	-
Unreserved:				
Special revenue funds	2,092	1,320	-	-
Permanent funds	-	-	-	-
Total cash basis fund balances	\$ 2,092	1,320	-	-

See accompanying independent auditor's report.

Debt Service	Permanent		Total
	Cemetery Perpetual Care	Library	
18,227	-	-	25,696
1,023	-	-	1,484
9	-	2	87
-	375	-	1,426
19,259	375	2	28,693
-	-	-	11,589
17,453	-	-	17,453
17,453	-	-	29,042
1,806	375	2	(349)
-	-	-	(7,930)
1,806	375	2	(8,279)
13,390	45,722	17,705	90,691
15,196	46,097	17,707	82,412
15,196	-	-	15,196
-	-	-	3,412
-	46,097	17,707	63,804
15,196	46,097	17,707	82,412

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Equipment note	Oct 7, 2004	4.25%	\$ 84,000
Property restoration	Feb 3, 2010	3.95	54,000
Total			
Revenue bonds:			
Local option sales tax	May 1, 2002	3.00%	\$ 400,000
Water	Apr 22, 2005	3.50 - 5.80	896,000
Sewer, Series 2010A	Feb 16, 2010	* 3.00	3,723,000
Sewer, Series 2010B (forgivable)	Feb 16, 2010	3.00	2,000,000
Total			
Sewer interim project note	Apr 15, 2009	0.00%	\$ 400,000
Purchase agreement	Mar 9, 2010	1.90%	\$ 16,410

* The City is required to annually pay a .25% serving fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
16,790	-	16,790	-	663
-	54,000	-	54,000	-
\$ 16,790	54,000	16,790	54,000	663
215,000	-	30,000	185,000	11,965
754,000	-	37,000	717,000	22,620
-	411,293	-	411,293	3,599
-	1,374,942	-	1,374,942	-
\$ 969,000	1,786,235	67,000	2,688,235	38,184
27,000	347,063	374,063	-	-
-	16,410	905	15,505	52

Schedule 3

City of Leon
Bond and Note Maturities
June 30, 2010

Year Ending June 30,	Local Option Sales Tax Issued May 1, 2002		Water Issued April 22, 2005		Total
	Interest Rates	Amount	Interest Rates	Amount	
2011	5.40%	\$ 35,000	3.00%	\$ 39,000	74,000
2012	5.50	35,000	3.00	40,000	75,000
2013	5.60	35,000	3.00	41,000	76,000
2014	5.70	40,000	3.00	42,000	82,000
2015	5.80	40,000	3.00	43,000	83,000
2016		-	3.00	45,000	45,000
2017		-	3.00	46,000	46,000
2018		-	3.00	47,000	47,000
2019		-	3.00	49,000	49,000
2020		-	3.00	50,000	50,000
2021		-	3.00	52,000	52,000
2022		-	3.00	53,000	53,000
2023		-	3.00	55,000	55,000
2024		-	3.00	57,000	57,000
2025		-	3.00	58,000	58,000
Total		<u>\$ 185,000</u>		<u>\$ 717,000</u>	<u>902,000</u>

See accompanying independent auditor's report.

City of Leon
 Schedule of Expenditures of Federal Awards
 June 30, 2010

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture:			
Community Facilities Loans and Grants	10.766		\$ 4,260
Indirect:			
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS-192419-01	1,412,172
U.S. Department of Education:			
Iowa Department of Transportation:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397		2,368
Total indirect			1,414,540
Total			\$ 1,418,800

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Leon and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

City of Leon



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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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 Leon, 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 March 15, 2011. Our report expressed unqualified opinions on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Leon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Leon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Leon's internal control over financial

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 and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

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 Leon's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10 and II-B-10 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 deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-C-10 through II-H-10 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Leon'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 an immaterial instance of non-compliance or other matter which is described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

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 Leon's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Leon'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 Leon and other parties to whom the City of Leon may report, including federal awarding agencies and pass-through entities, and 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 Leon 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

March 15, 2011

City of Leon

**Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133**



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David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the City of Leon, Iowa's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2010. The City of Leon's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Leon's management. Our responsibility is to express an opinion on the City of Leon's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Leon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Leon's compliance with those requirements.

In our opinion, the City of Leon complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010.

Internal Control over Compliance

The management of the City of Leon is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Leon's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Leon's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above.

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 Leon and other parties to whom the City of Leon may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 15, 2011

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which 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.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.458 - Capitalization Grants for Clean Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Leon did not qualify as a low-risk auditee.

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-10 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. One employee has control over each of the following areas:

- (1) Receipts – opening mail, collecting, depositing, posting and reconciling.
- (2) Disbursements – check writing, recording disbursements and recording accounts receivable.
- (3) Utilities – billing, collecting, posting and recording accounts receivable.
- (4) Payroll – recording leave, preparation and distribution.

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.

Response – We have developed a system where the Deputy Clerk opens and sorts the mail and the Utility Clerk enters the payments and delivers the mail to the proper departments. In the event that someone or more than one person is gone within the office the person(s) sorting and entering may change.

As for the disbursements, the Utility Clerk identifies the vendor on each claim, the Clerk codes the claims, and the Deputy Clerk enters the claims. The Mayor and City Clerk then sign the checks once done. In the event the Mayor or City Clerk, one or both, are absent to sign checks, the Mayor Pro-tem and/or Deputy Clerk are authorized to sign. The disbursements are then reviewed by the Council once per month.

The utility billing is billed by the Deputy Clerk and sorted by both the Utility Clerk and Deputy Clerk. The collecting is done by all within the office throughout each day.

The payroll is received and entered by the Deputy Clerk and timesheets are reviewed by the Mayor and signed by both Mayor and City Clerk. We are going to work on processes where the timesheets and accrued times are more extensively reviewed quarterly by the Mayor and City Clerk.

Conclusion – Response acknowledged. Implementation of any, if not all, of these procedures would enhance the City's internal control.

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

- II-B-10 Utility Billing Reconciliation – Utility billings, collections and delinquencies were not reconciled monthly.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies monthly. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – The City will from this point forward close out its last batch of the month on the last day of the month unless it falls on a weekend in which case it will be done the Friday before. We will then run a complete up-to-date aged trial balance that will show all accounts that do not have a zero balance. This will include any payments above what was billed or any accounts that have not been paid in full. This report will be compared to the billing report that is run for bills at the beginning of the month.

Conclusion – Response acknowledged. To properly account for all utility collections and delinquent accounts, the beginning of month aged trial balance should be reconciled to billings, collections and the end of month aged trial balance.

- II-C-10 Initial Listing – A listing of cash and checks received in the mail was not prepared.

Recommendation – A listing of all cash and receipts received in the mail should be prepared by a person other than accounting personnel. The listing should be compared to the receipt records by an independent person.

Response – We are not sure if this listing should include cash and checks received in the drop box. We are also not sure what benefit this would have other than duplication of work. We can work on implementing a routine of at least twice per month where the Deputy Clerk enters in payments received through the drop box and the mail into a spreadsheet. The Deputy Clerk could then turn it over to the Utility Clerk for entering. The City Clerk could then review the spreadsheet and the cash receipting report to ensure that the two coincide.

Conclusion – Response acknowledged. Controls over collections would be enhanced if the process identified in the first paragraph of the response to item II-A-10 above included the Deputy Clerk (mail opener) periodically preparing a list of several, not necessarily all, the cash and checks received in the mail and the drop box and later compared that list to the receipts record.

- II-D-10 Information Systems – The City does not have a written disaster recovery plan for its computer system or written policies regarding password security for the use of software.

Recommendation – The City should develop a written disaster recovery plan and password and software policies.

Response – The City currently utilizes the disaster recovery plan that the County Emergency Management Department uses. However, the City is in the middle of

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

developing a more City oriented disaster recovery plan which is intended to be implemented by July 1, 2011.

The City Council has passed a password and software policy and the Clerk is currently working with the City's IT company to get the policy completely implemented.

Conclusion – Response accepted.

- II-E-10 Timely Deposits – One state warrant received by the City was not deposited timely. The warrant was held for seventy days.

Recommendation – The City should establish policies and procedures to ensure all receipts are deposited timely.

Response – The City attempts to have all warrants deposited within 30 days from the date of receipt. The warrant that is being discussed had to do with the I-Jobs funding and questions and concerns were raised as to where and what fund it needed to be deposited into as it was to be specific and separate from others. Opinion on the matter and designation of the fund was sought during the audit conducted for the City for fiscal year 2009. In the future if a question is raised the Clerk will contact the audit firm immediately for advice and direction.

Conclusion – Response acknowledged. This was an unusual circumstance. However, to safeguard cash and increase funds available for investment, receipts should be recorded and deposited at least weekly. The City should consider revising its practice to deposit all warrants within one week from the date of receipt.

- II-F-10 Chart of Accounts and Annual Financial Report - The City has not fully implemented the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee on September 25, 2002. As a result, certain receipts and disbursements were not properly reported in the Annual Financial Report. These were classified and resolved for audit purposes.

Recommendation – To provide better information and control, the City should follow the Uniform Chart of Accounts for Iowa City Governments.

Response – The City Council has approved to purchase and implement new software through Data Technologies. At the time of the conversion to this new software, the Uniform Chart of Accounts for Iowa City Governments will be implemented and used from that point forward.

Conclusion – Response accepted.

- II-G-10 Journal Entries – Evidence did not exist documenting all non-routine journal entries were approved by an independent official.

Recommendation – The City should develop policies for processing and approving all journal entries. Approval by an independent person should be evidenced.

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Response – The Clerk currently reviews the entries when balancing her financial reports to the software financial reports. From this point forward the City Clerk and the Mayor will initial all journal entry reports.

Conclusion – Response accepted.

II-H-10 Credit Card Disbursements – Detailed vendor invoices were not retained for certain credit card transactions.

Recommendation – All disbursements, including credit card transactions, should be supported by original vendor invoices or other supporting documentation.

Response – It is a practice that the City Clerk requires documentation to support all claims filed and if documentation is not provided will make necessary calls to ensure that they are. The instances in question were, I believe, for the purchase of the weed trimmers from Wal-Mart and I do not recall what the other instance was. There are times where a ticket comes in and gets put in the file but not attached to the claim, and that may have been the case, but I did not look into it at the time. We will ensure that all claims do have documentation to support the claim by auditing the files once per month. This effort should alleviate further issues.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major program were noted.

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-10 Certified Budget – Disbursements during the year ended June 30, 2010 did not exceed the amounts budgeted.
- IV-B-10 Questionable Disbursements – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- IV-C-10 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-10 Business Transactions – No business transactions between the City and City officials or employees were noted.
- IV-E-10 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.
- IV-F-10 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-G-10 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- IV-H-10 Revenue Bonds – No instances of non-compliance with revenue bond provisions were noted.
- IV-I-10 Public Hearing for Debt – The City did not hold a public hearing prior to approving a purchase agreement for two mowers as required by Chapter 364.4 of the Code of Iowa.

Recommendation – The City should hold public hearings as required prior to entering into any purchase agreements as required by Chapter 364.4 of the Code of Iowa.

Response – The situation noted was in conjunction with the purchase of two lawnmowers for which the City entered into a low interest payment plan not exceeding \$20,000. The City from this point forward will hold a Public Hearing to cover any future purchase agreements as necessary.

Conclusion – Response accepted.

City of Leon

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Karen J. Kibbe, Senior Auditor
Nicole R. Williams, Assistant Auditor
Ryan A. Yeager, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State