



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

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NEWS RELEASE

FOR RELEASE

March 21, 2014

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the City of Leon, Iowa.

The City's receipts totaled \$3,517,785 for the year ended June 30, 2013. The receipts included \$438,044 in property and other city tax, \$1,503,908 from charges for service, \$331,350 from operating grants, contributions and restricted interest, \$566,032 from capital grants, contributions and restricted interest, \$110,612 from local option sales tax, \$1,719 from unrestricted interest on investments, \$433,941 from bond/loan proceeds and \$132,179 from other general receipts.

Disbursements for the year ended June 30, 2013 totaled \$3,108,156, and included \$316,973 for public safety, \$312,783 for public works and \$185,398 for culture and recreation. Also, disbursements for business type activities totaled \$2,181,381.

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/1321-0251-B00F.pdf>.

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CITY OF LEON

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

JUNE 30, 2013

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City of Leon

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert Kilgore	Mayor	Jan 2016
Keith Hinds	Mayor Pro-tem	Jan 2014
Misti Hearron	Council Member	(Resigned)
Sue Kelly (Appointed)	Council Member	Nov 2013
Larry Moffett	Council Member	Jan 2014
Allen Simmonds	Council Member	Jan 2016
Sharon South	Council Member	Jan 2016
Angela Blades	City 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:

Report on the Financial Statements

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, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinions

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, 2012.

Qualified Opinions

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, 2012, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Leon as of June 30, 2013, 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.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

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. The 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.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. 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, 2012, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 9 through 13 and 32 through 34, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 25, 2014 on our consideration of the City of Leon's internal control over financial reporting and on 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 in considering the City of Leon's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 25, 2014

City of Leon

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, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- The cash basis net position of the City's governmental activities increased approximately \$30,000. The General Fund and the Special Revenue, Road Use Tax Fund cash balances increased approximately \$40,000 and \$26,000, respectively. These increases were offset by a decrease in the Special Revenue, Employee Benefits Fund of approximately \$43,000.
- The City's total cash basis net position of the City's business type activities increased approximately \$380,000.

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 Cash Basis Statement of Activities and Net Position. 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 financial 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.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

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 Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

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

The Cash Basis Statement of Activities and Net Position 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, the 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, 4) the Capital Projects Fund and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

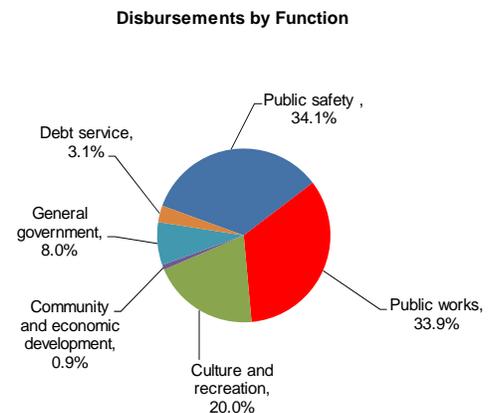
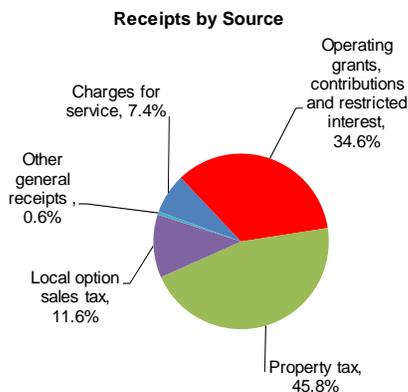
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for water, sewer and refuse disposal operations.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position 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 \$843,000 to approximately \$873,000.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)	
	Year ended June 30, 2013
Receipts:	
Program receipts:	
Charges for service	\$ 71
Operating grants, contributions and restricted interest	331
General receipts:	
Property tax	438
Local option sales tax	111
Other general receipts	6
Total receipts	<u>957</u>
Disbursements:	
Public safety	317
Public works	314
Culture and recreation	185
Community and economic development	8
General government	74
Debt service	29
Total disbursements	<u>927</u>
Change in cash basis net position	30
Cash basis net position beginning of year	<u>843</u>
Cash basis net position end of year	<u>\$ 873</u>



The cash basis net position of the City's governmental activities increased 3.6%, or approximately \$30,000.

Changes in Cash Basis Net Position of Business Type Activities
(Expressed in Thousands)

	Year ended June 30, 2013
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 601
Sewer	527
Refuse disposal	305
Capital grants, contributions and restricted interest	566
General receipts:	
Unrestricted interest on investments	1
Lawsuit settlement	127
Bond proceeds	434
Total receipts	2,561
Disbursements:	
Water	613
Sewer	1,295
Refuse disposal	273
Total disbursements	2,181
Change in cash basis net position	380
Cash basis net position beginning of year	804
Cash basis net position end of year	\$ 1,184

The cash basis net position of the City's business type activities increased 47.3%, or approximately \$380,000 over the prior year balance. During the year, the City received a settlement of \$127,254 from Syngenta for a class action lawsuit.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Leon completed the year, its governmental funds reported a combined fund balance of approximately \$873,000, an increase of approximately \$30,000 from last year's total of approximately \$843,000. 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 approximately \$40,000 over the prior year to approximately \$358,000. Receipts and disbursements totaled approximately \$522,000 and \$485,000, respectively.
- The Special Revenue, Road Use Tax Fund cash balance increased approximately \$26,000 to approximately \$73,000. Receipts and disbursements totaled approximately \$189,000 and \$163,000, respectively.
- The Special Revenue, Local Option Sales Tax (LOST) Fund cash balance increased approximately \$15,000 to approximately \$250,000. Per the LOST ballot, the City uses LOST receipts for construction and maintenance of street improvements, including necessary equipment and acquisition, demolition and restoration of dangerous and dilapidated properties.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased approximately \$115,000 to approximately \$561,000, due primarily to a rate increase. Operating receipts and disbursements were approximately \$600,000 and \$527,000, respectively. The City also received a lawsuit settlement of \$127,254.

- The Enterprise, Sewer Fund cash balance increased approximately \$232,000 to approximately \$465,000, due primarily to a rate increase. Operating receipts and disbursements were approximately \$527,000 and \$248,000, respectively. During the year, the City also received grants of approximately \$566,000 and bond/loan receipts of approximately \$434,000 to fund sewer improvements.
- The Enterprise, Refuse Disposal Fund cash balance increased approximately \$33,000 to approximately \$158,000. Operating receipts and disbursements were approximately \$305,000 and \$273,000, respectively.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The amendments were approved on December 13, 2012 and May 29, 2013. The amendments resulted in an increase in budgeted disbursements of \$1,879,405 primarily for capital outlay related to a wastewater treatment project. The City had additional receipts and sufficient cash balances to absorb the additional operating costs and revenue bond/loan proceeds to cover the project costs.

The City's receipts were \$529,980 less than budgeted and disbursements were \$839,460 less than budgeted. The variance between budget and actual is primarily due to the wastewater treatment project and related reimbursements progressing slower than anticipated.

DEBT ADMINISTRATION

At June 30, 2013, the City had approximately \$3,353,000 of bonds and notes outstanding, compared to approximately \$3,041,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2013	2012
General obligation notes	\$ 56	83
Water revenue bond	597	638
Sewer revenue bonds	2,362	2,320
Sewer revenue loan anticipation note	338	-
Total	\$ 3,353	3,041

Debt increased as a result of the City drawing additional proceeds on the sewer revenue bonds and the City issuing a sewer revenue loan anticipation note.

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 has \$56,480 of outstanding general obligation debt and its constitutional debt limit is approximately \$2,569,000.

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 2014 budget, tax rates and fees charged for various City activities.

The fiscal year 2014 budget contains total receipts of approximately \$2,214,000 and disbursements of approximately \$2,143,000.

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, 104 W. 1st Street, Leon, Iowa 50144.

City of Leon

Basic Financial Statements

City of Leon

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 316,973	11,715	108,499	-
Public works	313,783	5,505	201,411	-
Culture and recreation	185,398	31,464	20,917	-
Community and economic development	8,000	-	-	-
General government	73,493	22,800	169	-
Debt service	29,128	-	354	3
Total governmental activities	926,775	71,484	331,350	3
Business type activities:				
Water	613,247	600,472	-	-
Sewer	1,295,297	526,674	-	566,029
Refuse disposal	272,837	305,278	-	-
Total business type activities	2,181,381	1,432,424	-	566,029
Total	\$ 3,108,156	1,503,908	331,350	566,032

General Receipts:

Property and other city tax levied for:

General purposes

Debt service

Local option sales tax

Unrestricted interest on investments

Lawsuit settlement

Bond/loan proceeds

Miscellaneous

Total general receipts

Change in cash basis net position

Cash basis net position beginning of year

Cash basis net position end of year

Cash Basis Net Position

Restricted:

Nonexpendable:

Permanent funds

Expendable:

Public streets

Employee benefits

Debt service

Capital improvements

Other purposes

Unrestricted

Total cash basis net position

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(196,759)	-	(196,759)
(106,867)	-	(106,867)
(133,017)	-	(133,017)
(8,000)	-	(8,000)
(50,524)	-	(50,524)
(28,771)	-	(28,771)
(523,938)	-	(523,938)
-	(12,775)	(12,775)
-	(202,594)	(202,594)
-	32,441	32,441
-	(182,928)	(182,928)
(523,938)	(182,928)	(706,866)
410,704	-	410,704
27,340	-	27,340
110,612	-	110,612
260	1,459	1,719
-	127,254	127,254
-	433,941	433,941
4,925	-	4,925
553,841	562,654	1,116,495
29,903	379,726	409,629
843,498	804,143	1,647,641
\$ 873,401	1,183,869	2,057,270
\$ 65,065	-	65,065
72,837	-	72,837
74,077	-	74,077
15,639	20,585	36,224
-	87,518	87,518
288,156	-	288,156
357,627	1,075,766	1,433,393
\$ 873,401	1,183,869	2,057,270

City of Leon

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

As of and for the year ended June 30, 2013

	General	Special Road Use Tax
Receipts:		
Property tax	\$ 294,640	-
Other city tax	15,096	-
Licenses and permits	20,515	-
Use of money and property	6,205	-
Intergovernmental	133,073	189,293
Charges for service	18,225	-
Miscellaneous	33,808	-
Total receipts	<u>521,562</u>	<u>189,293</u>
Disbursements:		
Operating:		
Public safety	240,740	-
Public works	12,980	162,823
Culture and recreation	161,897	-
Community and economic development	-	-
General government	69,486	-
Debt service	-	-
Total disbursements	<u>485,103</u>	<u>162,823</u>
Excess (deficiency) of receipts over (under) disbursements	36,459	26,470
Other financing sources:		
Sale of real property	3,217	-
Change in cash balances	39,676	26,470
Cash balances beginning of year	317,951	46,367
Cash balances end of year	<u>\$ 357,627</u>	<u>72,837</u>
Cash Basis Fund Balances		
Nonspendable:		
Cemetery perpetual care	\$ -	-
Library trust	-	-
Restricted for:		
Public streets	-	72,837
Employee benefits	-	-
Debt service	-	-
Other purposes	-	-
Unassigned	357,627	-
Total cash basis fund balances	<u>\$ 357,627</u>	<u>72,837</u>

See notes to financial statements.

Revenue		
Local Option Sales Tax	Nonmajor	Total
-	122,020	416,660
110,612	6,288	131,996
-	-	20,515
294	870	7,369
-	-	322,366
-	-	18,225
-	2,522	36,330
110,906	131,700	953,461
-	76,233	316,973
82,220	55,760	313,783
13,603	9,898	185,398
-	8,000	8,000
-	4,007	73,493
-	29,128	29,128
95,823	183,026	926,775
15,083	(51,326)	26,686
-	-	3,217
15,083	(51,326)	29,903
235,208	243,972	843,498
250,291	192,646	873,401
-	47,358	47,358
-	17,707	17,707
-	-	72,837
-	74,077	74,077
-	15,639	15,639
250,291	37,865	288,156
-	-	357,627
250,291	192,646	873,401

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, 2013

	Enterprise			Total
	Water	Sewer	Refuse Disposal	
Operating receipts:				
Charges for service	\$ 600,302	525,433	305,278	1,431,013
Miscellaneous	170	1,241	-	1,411
Total operating receipts	600,472	526,674	305,278	1,432,424
Operating disbursements:				
Business type activities	527,300	247,974	272,837	1,048,111
Excess of operating receipts over operating disbursements	73,172	278,700	32,441	384,313
Non-operating receipts (disbursements):				
Interest on investments	935	401	123	1,459
Grants	-	566,029	-	566,029
Settlement	127,254	-	-	127,254
Bond/loan proceeds	-	433,941	-	433,941
Debt service	(61,735)	(133,753)	-	(195,488)
Capital projects	(24,212)	(913,570)	-	(937,782)
Net non-operating receipts (disbursements)	42,242	(46,952)	123	(4,587)
Change in cash balances	115,414	231,748	32,564	379,726
Cash balances beginning of year	445,519	233,623	125,001	804,143
Cash balances end of year	\$ 560,933	465,371	157,565	1,183,869
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ 4,993	15,592	-	20,585
Capital improvements	-	87,518	-	87,518
Unrestricted	555,940	362,261	157,565	1,075,766
Total cash basis fund balances	\$ 560,933	465,371	157,565	1,183,869

See notes to financial statements.

City of Leon

Notes to Financial Statements

June 30, 2013

(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, community and economic development 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 Cash Basis Statement of Activities and Net Position (previously referred to as 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 Cash Basis Statement of Activities and Net Position presents the City's net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Funds.

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

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

The Cash Basis Statement of Activities and Net Position 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 funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies 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 use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for local option sales tax receipts to be used for street construction and maintenance, including necessary equipment and the acquisition, demolition and restoration of dangerous and dilapidated properties.

The City reports the following major proprietary funds:

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

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

The Enterprise, 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 position 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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2013 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

General Obligation Equipment Acquisition Note

On February 1, 2012, the City issued a general obligation equipment acquisition note for \$83,000 for the purpose of acquiring a motor grader. The note requires 5 equal semiannual installments of \$14,564 due each June 1 and December 1, commencing December 1, 2012. During the year ended June 30, 2013, the City paid \$26,520 of principal and \$2,608 of interest. At June 30, 2013, the outstanding principal balance was \$56,480.

Water Revenue Bonds

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

Year Ending June 30,	Principal	Interest	Total
2014	\$ 42,000	17,910	59,910
2015	43,000	16,650	59,650
2016	45,000	15,360	60,360
2017	46,000	14,010	60,010
2018	47,000	12,630	59,630
2019-2023	259,000	41,010	300,010
2024-2025	115,000	5,190	120,190
Total	\$ 597,000	122,760	719,760

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 plus interest at 3.0% per annum. 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 \$719,760. For the year ended June 30, 2013, principal and interest paid and total customer net receipts were \$60,140 and \$73,172, respectively. During the current year, annual principal and interest payments on the bonds required approximately 82% of net receipts.

The resolution providing for the issuance of the water revenue bonds issued under a loan agreement between the City, 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 receipts 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 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, 2013, the City had drawn down \$2,416,061 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, 2013, the City paid principal of \$54,000 and interest of \$70,445 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 approximately 45% of net receipts. The total amount of principal and interest remaining to be paid on the bond at June 30, 2013 is not available since a final repayment schedule has not been adopted. For the current year, interest paid and total customer net receipts were \$124,445 and \$278,700, 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 Reinvestment 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 received funds from the DNR upon request to reimburse the City for costs as incurred. At June 30, 2013, the City has drawn the authorized amount of \$2,000,000, but the City had not met the requirements for the loan to be forgiven. Subsequent to June 30, 2013, the City met the requirements for the loan to be forgiven.

Sewer Revenue Loan Anticipation Note

On November 2, 2012, the City entered into a Sewer Revenue Loan Anticipation Note for the purpose of paying the cost of planning, designing and constructing improvements and extensions to the Utility. The principal amount of the note shall not exceed \$353,000 and will bear interest at a rate of 3.47% per annum. At June 30, 2013, the City has drawn \$338,000 on the loan and accrued interest of approximately \$2,000. The note was scheduled to mature on June 1, 2013 but was extended until September 2013. The City repaid the note in August 2013 with proceeds received from a USDA loan.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2013 was \$49,223.

(5) 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 hours payable to employees at June 30, 2013, primarily relating to the General Fund and the Enterprise, Water, Sewer and Refuse Disposal Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 30,400
Compensatory	24,600
Sick leave	10,700
Total	<u>\$ 65,700</u>

This liability has been computed based on rates of pay in effect at June 30, 2013.

(6) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, 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 \$478 to \$737 for single coverage and \$922 to \$1,666 for family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2013, the City contributed \$233,877 and plan members eligible for benefits contributed \$18,395 to the plan.

(7) 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.

(8) Contract with the Southern Iowa Rural Water Association (SIRWA)

The City has entered into an agreement with the 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, 2013 is \$2.15/1,000 gallons, with the provision the rate per 1,000 gallons is subject to annual review based on changes in production costs. The agreement covers a 40 year period ending August 31, 2046.

(9) Related Organization

The Low Rent Housing Agency of Leon, Iowa is a related organization of 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.

(10) Construction Commitment

At June 30, 2013, the City had entered into a construction contract for \$4,878,700 for construction of a wastewater treatment facility. Change orders have reduced the construction contract to \$4,712,699. As of June 30, 2013, costs of \$4,476,798 had been paid on the contract. The remaining \$235,901 will be paid as work on the project progresses.

The City entered into two additional contracts for sanitary sewer replacement and relocation. One contract was for \$781,463, of which the City has paid \$578,486. The remaining \$202,977 will be paid as the project progresses. The second contract was for \$766,419 which was reduced to \$606,625 due to change orders. As of June 30, 2013, the City has paid \$171,912 on the contract. The remaining \$434,713 will be paid as the work is completed.

(11) Subsequent Events

In July 2013, the City approved the issuance of a \$108,000 general obligation corporate purpose note to pay for a garbage packer and patrol vehicles.

In August 2013, the City borrowed \$353,000 from the USDA to pay costs associated with a wastewater treatment plant project and to repay interim financing associated with the project.

City of Leon

Other 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

Other Information

Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 416,660	-	416,660
Other city tax	131,996	-	131,996
Licenses and permits	20,515	-	20,515
Use of money and property	7,369	1,459	8,828
Intergovernmental	322,366	566,029	888,395
Charges for service	18,225	1,431,013	1,449,238
Special assessments	-	-	-
Miscellaneous	36,330	128,665	164,995
Total receipts	<u>953,461</u>	<u>2,127,166</u>	<u>3,080,627</u>
Disbursements:			
Public safety	316,973	-	316,973
Public works	313,783	-	313,783
Culture and recreation	185,398	-	185,398
Community and economic development	8,000	-	8,000
General government	73,493	-	73,493
Debt service	29,128	-	29,128
Business type activities	-	2,181,381	2,181,381
Total disbursements	<u>926,775</u>	<u>2,181,381</u>	<u>3,108,156</u>
Excess (deficiency) of receipts over (under) disbursements	26,686	(54,215)	(27,529)
Other financing sources, net	3,217	433,941	437,158
Excess of receipts and other financing sources over disbursements	29,903	379,726	409,629
Balances beginning of year	843,498	804,143	1,647,641
Balances end of year	<u>\$ 873,401</u>	<u>1,183,869</u>	<u>2,057,270</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
408,907	409,024	7,636
131,772	131,223	773
4,895	4,760	15,755
6,460	8,117	711
208,617	1,468,038	(579,643)
1,374,648	1,398,189	51,049
-	846	(846)
22,375	190,410	(25,415)
<u>2,157,674</u>	<u>3,610,607</u>	<u>(529,980)</u>
244,615	325,646	8,673
236,933	339,490	25,707
165,034	202,680	17,282
-	8,000	-
88,652	82,625	9,132
29,129	29,129	1
1,303,848	2,960,046	778,665
<u>2,068,211</u>	<u>3,947,616</u>	<u>839,460</u>
89,463	(337,009)	309,480
-	452,158	(15,000)
89,463	115,149	294,480
1,658,643	1,649,316	(1,675)
<u>1,748,106</u>	<u>1,764,465</u>	<u>292,805</u>

City of Leon

Notes to Other Information – Budgetary Reporting

June 30, 2013

The budgetary comparison is presented 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 Capital Projects 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, two budget amendments increased budgeted disbursements by \$1,879,405. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements did not exceed the amounts budgeted.

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, 2013

	Special Revenue				
	Cemetery Trust	Library Trust	Employee Benefits	Economic Development	Volunteer Firefighters Club
Receipts:					
Property tax	\$ -	-	94,680	-	-
Other city tax	-	-	4,838	-	-
Use of money and property	1	-	169	43	-
Miscellaneous	-	862	-	-	1,660
Total receipts	1	862	99,687	43	1,660
Disbursements:					
Operating:					
Public safety	-	-	74,342	-	1,891
Public works	-	-	55,760	-	-
Culture and recreation	-	862	9,036	-	-
Community and economic development	-	-	-	8,000	-
General government	-	-	4,007	-	-
Debt service	-	-	-	-	-
Total disbursements	-	862	143,145	8,000	1,891
Change in cash balances	1	-	(43,458)	(7,957)	(231)
Cash balances beginning of year	3,270	124	117,535	35,541	4,826
Cash balances end of year	\$ 3,271	124	74,077	27,584	4,595
Cash Basis Fund Balances					
Nonspendable:					
Cemetery perpetual care	\$ -	-	-	-	-
Library trust	-	-	-	-	-
Restricted for:					
Employee benefits	-	-	74,077	-	-
Debt service	-	-	-	-	-
Other purposes	3,271	124	-	27,584	4,595
Total cash basis fund balances	\$ 3,271	124	74,077	27,584	4,595

See accompanying independent auditor's report.

Debt Service	Capital Projects	Permanent		Total
		Cemetery Perpetual Care	Library	
27,340	-	-	-	122,020
1,450	-	-	-	6,288
18	3	636	-	870
-	-	-	-	2,522
28,808	3	636	-	131,700
-	-	-	-	76,233
-	-	-	-	55,760
-	-	-	-	9,898
-	-	-	-	8,000
-	-	-	-	4,007
29,128	-	-	-	29,128
29,128	-	-	-	183,026
(320)	3	636	-	(51,326)
15,959	2,288	46,722	17,707	243,972
15,639	2,291	47,358	17,707	192,646
-	-	47,358	-	47,358
-	-	-	17,707	17,707
-	-	-	-	74,077
15,639	-	-	-	15,639
-	2,291	-	-	37,865
15,639	2,291	47,358	17,707	192,646

City of Leon
Schedule of Indebtedness
Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation note:			
Motor grader	Feb 1, 2012	2.50%	\$ 83,000
Revenue bonds:			
Water	Apr 22, 2005	3.00%	\$ 896,000
Sewer, series 2010A	Feb 16, 2010	* 3.00	3,723,000
Total			
Sewer revenue loan anticipation note	Nov 2, 2012	3.47%	\$ 353,000

* The City is required to annually pay a .25% servicing 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
83,000	-	26,520	56,480	2,608
638,000	-	41,000	597,000	19,140
2,320,120	95,941	54,000	2,362,061	70,445
\$ 2,958,120	95,941	95,000	2,959,061	89,585
-	338,000	-	338,000	-

Schedule 3

City of Leon
Bond Maturities
June 30, 2013

Year Ending June 30,	Water Revenue Bonds	
	Issued April 22, 2005	
	Interest Rates	Amount
2014	3.00%	\$ 42,000
2015	3.00	43,000
2016	3.00	45,000
2017	3.00	46,000
2018	3.00	47,000
2019	3.00	49,000
2020	3.00	50,000
2021	3.00	52,000
2022	3.00	53,000
2023	3.00	55,000
2024	3.00	57,000
2025	3.00	58,000
Total		<u>\$ 597,000</u>

See accompanying independent auditor's report.

City of Leon

Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

Grantor/Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture: Water and Waste Disposal System for Rural Communities	10.760		\$ 552,671
U.S. Department of Homeland Security: Assistance to Firefighters Grant (\$55,047 provided to subrecipients)	97.044	EMW-2011-FR-00090	75,006
Total direct			627,677
Indirect:			
U.S. Department of Housing and Urban Development: Iowa Economic Development Authority: Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii	14.228	10-WS-037-09	264,324
U.S. Department of Transportation: Iowa Department of Public Safety: Occupant Protection Incentive Grants	20.602	PAP 13-03, Task 190	4,500
Total indirect			268,824
Total			\$ 896,501

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 in 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



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Mary Mosiman, CPA
Auditor of State

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 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, the 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, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 25, 2014. Our report expressed qualified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance of July 1, 2012.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Leon's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Leon's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Leon's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be material weaknesses and 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 in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-13 through II-C-13 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-D-13 through II-G-13 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 matters 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, 2013 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 the Findings

The City of Leon's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Leon's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 25, 2014

City of Leon

**Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control over Compliance
Required by OMB Circular A-133**



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Mary Mosiman, CPA
Auditor of State

Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control over Compliance
Required by OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Leon, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Leon's major federal program for the year ended June 30, 2013. The City of Leon's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Leon's major federal program based on our audit of the types of compliance requirements referred to above. 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 noncompliance 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Leon's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Leon complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of the City of Leon is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Leon's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 25, 2014

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

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

- (a) Qualified 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 unmodified 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 10.760 – Water and Waste Disposal System for Rural Communities.
- (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.

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-13 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 for the City:

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

For the Leon Volunteer Firefighter Fund, one individual has control over each of the following areas.

- (1) Cash – handling, recording and reconciling.
- (2) Receipts – collecting, recording, depositing and reconciling.
- (3) Disbursements – preparing, signing, recording and reconciling.

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. The City should utilize current personnel, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons and should be evidenced by the signature or initials of the reviewer and the date of the review.

Response – The City Council has established an audit committee comprised of two Council Members and the Mayor. The audit committee has been established in order to have a more in depth review of the financial records and to sign off after reviewing the records. The City underwent changes and established a written procedure for payments received and is anticipating making a few additional changes in an attempt to maximize segregation of duties with the small available staff.

- (1) Receipts — Some of the additional procedures will include having the Deputy Clerk open the mail, the Administrative Assistant will sort the mail and enter payments, the Administrative Assistant will take the deposit to the bank, the Deputy Clerk will check the deposit receipt once the Administrative Assistant returns with the validated deposit slip, which will be initialed and dated.

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

- (2) Disbursements - The Administrative Assistant alphabetizes claims and updates billing information, the City Clerk codes the claims, the Deputy Clerk enters the claims in accounts payable, the Mayor and Clerk sign checks, if both are available. Alternate check signers are the Deputy Clerk and the Mayor Pro-tem. The City Council approves all claims. This will also be reviewed by the audit committee and signed off on.
- (3) Utilities - The Deputy Clerk enters work orders into the system reading in and out of accounts, runs and counts the bills. The Administrative Assistant takes the bills to the post office. The Administrative Assistant is the first to respond to payments for billing, but the City Clerk and Deputy Clerk enter payments as well. We believe after working with our billing software company, we have discovered reports which would better allow for billed and what is outstanding with a Utility Billing Trial Balance Report. We are also printing a Balance Adjustment Report which will be reviewed and signed off on monthly by the audit committee.
- (4) Payroll - The audit committee will begin viewing and signing off on the payroll records monthly for time accrual as well as wage reports. The Mayor will also start viewing and signing off on all timesheets as well.

For the Leon Volunteer Fire Fighter Fund, once the City was made aware of the separate checking and savings accounts being held separately from the City, the City Clerk informed the Leon Volunteer Fire Fighters the accounts had to be provided to the City immediately. The Fire Chief provided the accounts to the City within that same day. There were a few outstanding checks yet to go through the bank and a few claims had not been received. Those additional claims were received at City Hall and are kept for proper record keeping. The account books are currently being held in the safe at City Hall and once all remaining claims have cleared the bank, the accounts will be closed out and all funds will be entered into the City's general bank and accounting records.

- (1) Cash - All Volunteer Fire Department cash will be reconciled through the City's financial records in the same manner other City cash is handled.
- (2) Receipts - All Volunteer Fire Department funds received will be done through the City's financial records in the same manner other City funds are handled.
- (3) Disbursements - All Volunteer Fire Department Claims will be paid for through the City's financial records in the same manner other City claims are handled.

Conclusion - Response accepted.

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

- II-B-13 Utility Billing Reconciliation – Utility billings, collections and delinquent accounts were not reconciled monthly.

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

Response – The City had kept a record of a meter deposit reports and audit reports, but it did not quite meet what was recommended. The City is attempting to resolve this by working with Data Technologies to establish and provide the reporting needed. We believe the issue has been resolved to the best of the ability with our current software. The Utility Billing Trial Balance Report, the Accounts Receivable Audit Report and the Utility Billing Report will better allow for comparisons to what is being billed, received and outstanding.

Conclusion – Response accepted.

- II-C-13 Bank Reconciliation – Book balances were not adequately reconciled to the bank and investment balances monthly for the City. Also, accurate lists of outstanding checks were not prepared monthly.

Recommendation – To improve financial accountability and control, book and bank and investment balances should be reconciled monthly. Variances, if any, should be investigated and resolved timely and retained.

Response – Due to the City’s conversion to new financial management software and some difficulties with several funds and/or balances not converting properly, there was confusion and/or delay in some items. We believe those items have now been resolved to the satisfaction of the City. At year end, the outstanding checks conflicted within the financial reports. This was brought to our attention and we are reviewing and comparing the Treasurer Report, the Trial Balance Report and the Bank Cash Reports monthly to ensure all of the report balances are consistent.

Conclusion – Response accepted.

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

- II-D-13 Initial Listing – A listing of cash and checks received in the mail was not prepared and reviewed by an independent person.

Recommendation – A listing of all cash and checks 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 – Due to the limited staff within the office, we will attempt to segregate duties as much as possible. We are working to establish a two person system policy to better account for drop box and mail receipts to be able to cross reference with the person who enters it into the system. We need to work through potential issues with this plan as payments from customers come in which will be processed immediately while the listing of payments received via the drop box and mail is being entered. This in turn could cause problems reconciling.

Conclusion – Response accepted.

- II-E-13 Computer System – The City does not have a written disaster recovery plan for its computer system or written policies for the use of software.

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

Response – The City is working to establish a written disaster recovery plan for its computer system and written policies for the use of software. We will be working with our computer management company to see the best way to be operational in the event of a disaster. We will also be working to establish a policy for prohibiting non city related software.

Conclusion – Response accepted.

- II-F-13 Journal Entries – Evidence did not exist documenting all non-routine journal entries were approved by an independent person.

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

Response – The City has established an audit committee comprised of two Council Members and the Mayor to review all transactions related to the City which will be reviewed, dated and initialed by the audit committee.

Conclusion – Response accepted.

- II-G-13 Supporting Documentation – None of the disbursements tested for the Leon Volunteer Firefighter's Fund had an invoice or supporting documentation available for review.

Recommendation – The City should ensure supporting documentation is maintained for all disbursements.

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Response – Once the City was made aware of the separate checking and savings accounts being held by the Leon Volunteer Fire Fighters separately from the City, the City Clerk informed the Leon Volunteer Fire Department the accounts had to be provided to the City immediately. The Fire Chief provided the accounts to the City within that same day. The account books are currently being held in the safe at City Hall and once all remaining claims have cleared the bank, the accounts will be closed out and all funds will be entered into the City general bank and accounting records.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

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, 2013

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-13 Certified Budget – Disbursements during the year ended June 30, 2013 did not exceed the amounts budgeted.
- IV-B-13 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-13 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-13 Business Transactions – No business transactions between the City and City officials or employees were noted.
- IV-E-13 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-13 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-G-13 Deposits and Investments – Except a resolution naming an official depository could not be located, 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.

Recommendation – A depository resolution including all depositories used by the City should be adopted by the City Council in accordance with Chapter 12C.2 of the Code of Iowa.

Response – The City will adopt a depository resolution.

Conclusion – Response accepted.

City of Leon

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Karen J. Kibbe, Senior Auditor II
Thomas J. Hebert, Staff Auditor
Ryan J. Pithan, CPA, 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