



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

January 22, 2015

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 \$3,556,141 for the year ended June 30, 2014. The receipts included \$467,570 in property and other city tax, \$1,449,340 from charges for service, \$294,651 from operating grants, contributions and restricted interest, \$605,973 from capital grants, contributions and restricted interest, \$100,094 from local option sales tax, \$1,876 from unrestricted interest on investments, \$630,896 from bond/note proceeds and \$5,741 from other general receipts.

Disbursements for the year ended June 30, 2014 totaled \$3,650,722, and included \$321,413 for public works, \$275,633 for public safety and \$266,806 for capital projects. Also, disbursements for business type activities totaled \$2,485,284.

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/1421-0251-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, 2014

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City of Leon

Officials

(Before January 2014)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert Kilgore	Mayor	Jan 2016
Keith Hinds	Mayor Pro-tem	Jan 2014
Larry Moffett	Council Member	Jan 2014
Sue Kelly	Council Member	Jan 2016
Allen Simmonds	Council Member	Jan 2016
Sharon South	Council Member	Jan 2016
Angela Blades	City Clerk/Treasurer	Indefinite
Pat Greenwood	Attorney	Indefinite

(After January 2014)

Robert Kilgore	Mayor	Jan 2016
Allen Simmonds	Mayor Pro-tem	Jan 2016
Sue Kelly	Council Member	Jan 2016
Sharon South	Council Member	Jan 2016
Troy Armstrong	Council Member	Jan 2018
Elmer Easton	Council Member	Jan 2018
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, 2014, 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.

Opinions

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, 2014, 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 opinions are 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, 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 7 through 12 and 30 through 32, 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 December 2, 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

December 2, 2014

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, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- The cash basis net position of the City's governmental activities increased approximately \$42,000. The Special Revenue, Road Use Tax Fund and Local Option Sales Tax Fund cash balances increased approximately \$23,000 and \$29,000, respectively. These increases were offset by a decrease in the General Fund of approximately \$18,000.
- The City's total cash basis net position of the City's business type activities decreased approximately \$136,000.

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.

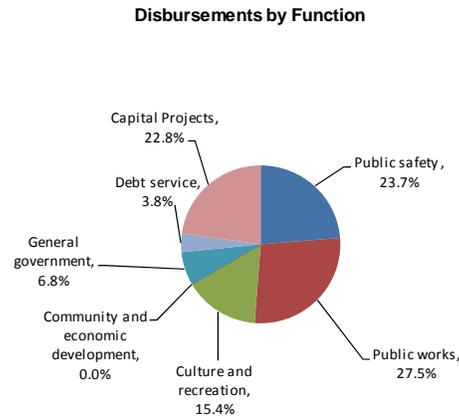
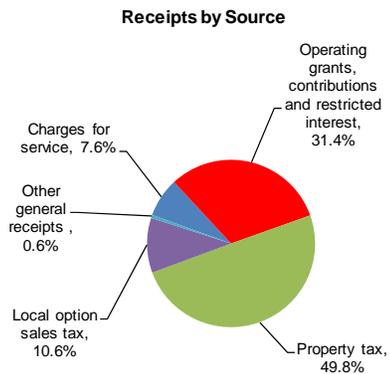
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for water, sewer and refuse disposal operations.

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 \$873,000 to approximately \$915,000.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service	\$ 71	71
Operating grants, contributions and restricted interest	295	331
General receipts:		
Property tax	468	438
Local option sales tax	100	111
Note proceeds	108	-
Other general receipts	6	6
Total receipts	<u>1,048</u>	<u>957</u>
Disbursements:		
Public safety	276	317
Public works	321	314
Culture and recreation	179	185
Community and economic development	-	8
General government	79	74
Debt service	44	29
Capital projects	266	-
Total disbursements	<u>1,165</u>	<u>927</u>
Change in cash basis net position before transfers	(117)	30
Transfers, net	159	-
Change in cash basis net position	<u>42</u>	<u>30</u>
Cash basis net position beginning of year	873	843
Cash basis net position end of year	<u>\$ 915</u>	<u>873</u>



The cash basis net position of the City's governmental activities increased 4.8%, or approximately \$42,000, from the prior year balance.

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

	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 574	601
Sewer	511	527
Refuse disposal	293	305
Capital grants, contributions and restricted interest	606	566
General receipts:		
Unrestricted interest on investments	1	1
Lawsuit settlement	-	127
Bond/note proceeds	523	434
Total receipts	2,508	2,561
Disbursements:		
Water	575	613
Sewer	1,627	1,295
Refuse disposal	283	273
Total disbursements	2,485	2,181
Change in cash basis net position before transfers	23	380
Transfers, net	(159)	-
Change in cash basis net position	(136)	380
Cash basis net position beginning of year	1,184	804
Cash basis net position end of year	\$ 1,048	1,184

The cash basis net position of the City's business type activities decreased 11.5%, or approximately \$136,000 from the prior year balance. During the year, Enterprise Funds transferred out \$159,000 for equipment purchases.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Leon completed the year, its governmental funds reported a combined fund balance of approximately \$915,000, an increase of approximately \$42,000 over last year's total of approximately \$873,000. 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 decreased approximately \$18,000 from the prior year to approximately \$340,000. Receipts and disbursements totaled approximately \$424,000 and \$447,000, respectively.
- The Special Revenue, Road Use Tax Fund cash balance increased approximately \$23,000 to approximately \$96,000. Receipts and disbursements totaled approximately \$197,000 and \$174,000, respectively.
- The Special Revenue, Local Option Sales Tax (LOST) Fund cash balance increased approximately \$29,000 to approximately \$279,000. Per the LOST ballot, the City is to use LOST receipts for construction and maintenance of street improvements, including necessary equipment, and acquisition, demolition and restoration of dangerous and dilapidated properties.
- The Capital Projects Fund cash balance did not change significantly. Disbursements totaled approximately \$267,000. During the year, note proceeds and operating transfers in were utilized to purchase equipment.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased approximately \$70,000 to approximately \$491,000, due primarily to a transfer out of approximately \$69,000 for equipment purchases. Operating receipts and disbursements were approximately \$574,000 and \$514,000, respectively.
- The Enterprise, Sewer Fund cash balance increased approximately \$13,000 to approximately \$479,000. Operating receipts and disbursements were approximately \$511,000 and \$264,000, respectively. During the year, the City also received grants of approximately \$606,000 and bond/note receipts of approximately \$523,000 to fund sewer improvements.
- The Enterprise, Refuse Disposal Fund cash balance decreased approximately \$80,000 to approximately \$77,000, due primarily to a \$90,000 transfer out for equipment purchases. Operating receipts and disbursements were approximately \$293,000 and \$275,000, respectively.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The amendments were approved on January 9, 2014 and May 27, 2014. The amendments resulted in an increase in budgeted disbursements of \$1,674,601, primarily in the capital projects function for equipment purchases and the wastewater collection system project. The City had additional grant receipts, revenue bond/note proceeds and sufficient cash balances to cover the project costs.

The City's receipts were approximately \$323,000 less than budgeted and disbursements were approximately \$167,000 less than budgeted. The variance between budget and actual is primarily due to disbursements for the wastewater treatment project and the timing of the related reimbursements.

DEBT ADMINISTRATION

At June 30, 2014, the City had approximately \$3,480,000 of bonds and notes outstanding, compared to approximately \$3,353,000 last year, as shown below.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2014	2013
General obligation notes	\$ 115	56
Water revenue bond	555	597
Sewer revenue bond/note	2,810	2,362
Sewer revenue loan anticipation note	-	338
Total	\$ 3,480	3,353

Debt increased as a result of the City drawing additional proceeds on the sewer revenue bond and a general obligation note issued for equipment purchases.

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 \$115,410 is considerably less than its constitutional debt limit of 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 2015 budget, tax rates and fees charged for various City activities.

The fiscal year 2015 budget contains total receipts of approximately \$2,274,000 and disbursements of approximately \$2,457,000.

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 Greg Crocker, City Administrator, 104 W. 1st Street, Leon, Iowa 50144.

Basic Financial Statements

City of Leon

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2014

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 275,633	14,338	49,759	-
Public works	321,413	3,351	206,950	-
Culture and recreation	178,734	31,452	37,548	-
General government	78,936	22,103	86	-
Debt service	43,916	-	308	-
Capital projects	266,806	-	-	2
Total governmental activities	1,165,438	71,244	294,651	2
Business type activities:				
Water	575,216	574,171	-	-
Sewer	1,627,047	511,103	-	605,971
Refuse disposal	283,021	292,822	-	-
Total business type activities	2,485,284	1,378,096	-	605,971
Total	\$ 3,650,722	1,449,340	294,651	605,973

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 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
(211,536)	-	(211,536)
(111,112)	-	(111,112)
(109,734)	-	(109,734)
(56,747)	-	(56,747)
(43,608)	-	(43,608)
(266,804)	-	(266,804)
(799,541)	-	(799,541)
-	(1,045)	(1,045)
-	(509,973)	(509,973)
-	9,801	9,801
-	(501,217)	(501,217)
(799,541)	(501,217)	(1,300,758)
422,397	-	422,397
45,174	-	45,174
100,094	-	100,094
517	1,359	1,876
108,000	522,896	630,896
5,740	-	5,740
159,282	(159,282)	-
841,204	364,973	1,206,177
41,663	(136,244)	(94,581)
873,401	1,183,869	2,057,270
\$ 915,064	1,047,625	1,962,689

\$ 65,410	-	65,410
96,115	-	96,115
53,088	-	53,088
16,911	33,753	50,664
-	26,980	26,980
343,680	-	343,680
339,860	986,892	1,326,752
\$ 915,064	1,047,625	1,962,689

City of Leon

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

As of and for the year ended June 30, 2014

	General	Special Road Use Tax
Receipts:		
Property tax	\$ 272,538	-
Other city tax	14,558	-
Licenses and permits	19,013	-
Use of money and property	5,767	-
Intergovernmental	58,356	197,411
Charges for service	18,956	-
Special assessments	1,819	-
Miscellaneous	32,912	-
Total receipts	<u>423,919</u>	<u>197,411</u>
Disbursements:		
Operating:		
Public safety	189,305	-
Public works	16,058	174,133
Culture and recreation	167,629	-
General government	74,434	-
Debt service	-	-
Capital projects	-	-
Total disbursements	<u>447,426</u>	<u>174,133</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(23,507)</u>	<u>23,278</u>
Other financing sources:		
Note proceeds	-	-
Sale of real property	5,740	-
Transfers in	-	-
Total other financing sources	<u>5,740</u>	<u>-</u>
Change in cash balances	(17,767)	23,278
Cash balances beginning of year	357,627	72,837
Cash balances end of year	<u>\$ 339,860</u>	<u>96,115</u>
Cash Basis Fund Balances		
Nonspendable:		
Cemetery perpetual care	\$ -	-
Library trust	-	-
Restricted for:		
Public streets	-	96,115
Employee benefits	-	-
Debt service	-	-
Other purposes	-	-
Unassigned	339,860	-
Total cash basis fund balances	<u>\$ 339,860</u>	<u>96,115</u>

See notes to financial statements.

Revenue			
Local Option Sales Tax	Capital Projects	Nonmajor	Total
-	-	171,227	443,765
100,094	-	9,248	123,900
-	-	-	19,013
271	2	137	6,177
-	-	21,900	277,667
-	-	-	18,956
-	-	-	1,819
-	-	9,870	42,782
100,365	2	212,382	934,079
-	-	86,328	275,633
71,569	-	59,653	321,413
-	-	11,105	178,734
-	-	4,502	78,936
-	-	43,916	43,916
-	266,806	-	266,806
71,569	266,806	205,504	1,165,438
28,796	(266,804)	6,878	(231,359)
-	108,000	-	108,000
-	-	-	5,740
-	159,282	-	159,282
-	267,282	-	273,022
28,796	478	6,878	41,663
250,291	2,291	190,355	873,401
279,087	2,769	197,233	915,064
-	-	47,703	47,703
-	-	17,707	17,707
-	-	-	96,115
-	-	53,088	53,088
-	-	16,911	16,911
279,087	2,769	61,824	343,680
-	-	-	339,860
279,087	2,769	197,233	915,064

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, 2014

	Enterprise			Total
	Water	Sewer	Refuse Disposal	
Operating receipts:				
Charges for service	\$ 553,864	510,548	286,785	1,351,197
Miscellaneous	20,307	555	6,037	26,899
Total operating receipts	574,171	511,103	292,822	1,378,096
Operating disbursements:				
Business type activities	513,814	264,065	274,703	1,052,582
Excess of operating receipts over operating disbursements	60,357	247,038	18,119	325,514
Non-operating receipts (disbursements):				
Interest on investments	820	422	117	1,359
Grants	-	605,971	-	605,971
Bond/note proceeds	-	522,896	-	522,896
Debt service	(61,402)	(503,072)	(8,318)	(572,792)
Capital projects	-	(859,910)	-	(859,910)
Net non-operating receipts (disbursements)	(60,582)	(233,693)	(8,201)	(302,476)
Excess (deficiency) of receipts over (under) disbursements	(225)	13,345	9,918	23,038
Transfers out	(69,282)	-	(90,000)	(159,282)
Change in cash balances	(69,507)	13,345	(80,082)	(136,244)
Cash balances beginning of year	560,933	465,371	157,565	1,183,869
Cash balances end of year	\$ 491,426	478,716	77,483	1,047,625
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ 4,971	28,782	-	33,753
Capital improvements	-	26,980	-	26,980
Unrestricted	486,455	422,954	77,483	986,892
Total cash basis fund balances	\$ 491,426	478,716	77,483	1,047,625

See notes to financial statements.

City of Leon

Notes to Financial Statements

June 30, 2014

(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, Decatur County Joint E911 Service Board and Decatur County Jail Authority.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position 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 the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints 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 Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

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. During the year ended June 30, 2014, disbursements exceeded the amount budgeted in the capital projects function prior to a budget amendment.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2014 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 to acquire a motor grader. The note requires five equal semiannual installments of \$14,564 due each June 1 and December 1, commencing December 1, 2012. During the year ended June 30, 2014, the City paid \$27,888 of principal and \$1,240 of interest on the note. At June 30, 2014, the outstanding principal balance was \$28,592.

General Obligation Corporate Purpose Note

On July 31, 2013, the City issued a general obligation equipment acquisition note for \$108,000 to acquire a police vehicle and a garbage packer. The note requires ten equal semiannual installments of \$11,553 due each June 1 and December 1, commencing December 1, 2013. During the year ended June 30, 2014, the City paid \$21,182 of principal and \$1,924 of interest on the note. At June 30, 2014, the outstanding principal balance was \$86,818.

The Code of Iowa requires principal and interest on general obligation debt to be paid from the Debt Service Fund. However, \$8,318 of the general obligation note was paid from the Enterprise, Refuse Disposal Fund during the year ended June 30, 2014.

Water Revenue Bonds

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

Year Ending June 30,	Principal	Interest	Total
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	49,000	11,220	60,220
2019-2023	267,000	33,240	300,240
2024-2025	58,000	1,740	59,740
Total	\$ 555,000	104,850	659,850

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.

The City's water net receipts for the year ended June 30, 2014 were less than the required 110% of principal and interest due on the 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 plus interest at 3.0% per annum. The agreement requires the City to annually pay a .25% servicing fee on the outstanding principal balance. 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 \$659,850. For the year ended June 30, 2014, principal and interest paid and total customer net receipts were \$59,910 and \$60,357, respectively. During the current year, annual principal and interest payments on the bonds required approximately 99% of net receipts.

Sewer Revenue Bond, Series 2010A

Annual debt service requirements to maturity for the sewer revenue bond is as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 55,000	73,860	128,860
2016	57,000	72,210	129,210
2017	59,000	70,500	129,500
2018	61,000	68,730	129,730
2019	63,000	66,900	129,900
2020-2024	346,000	304,950	650,950
2025-2029	406,000	249,540	655,540
2030-2034	475,000	184,650	659,650
2035-2039	559,000	108,510	667,510
2040-2042	381,000	23,100	404,100
Total	\$ 2,462,000	1,222,950	3,684,950

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. During the year ended

June 30, 2014 the City completed the project and received draw downs of \$154,896. A total of \$2,570,957 was drawn down for the project. During the current year, the City paid principal of \$54,957 and interest of \$73,688 on the bond.

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.

Sewer Revenue Note, Series 2013

Annual debt service requirements to maturity for the sewer revenue note is as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 5,796	7,344	13,140
2016	5,920	7,220	13,140
2017	6,047	7,093	13,140
2018	6,177	6,963	13,140
2019	6,309	6,831	13,140
2020-2024	33,637	32,063	65,700
2025-2029	37,403	28,297	65,700
2030-2034	41,592	24,108	65,700
2035-2039	46,251	19,449	65,700
2040-2044	51,431	14,269	65,700
2045-2049	57,191	8,509	65,700
2050-2054	50,506	2,230	52,736
Total	\$ 348,260	164,376	512,636

On July 22, 2013, the City entered into a loan agreement with the U.S. Department of Agriculture for the issuance of a \$353,000 sewer revenue note with interest at 2.125% per annum. The note proceeds were used to pay off the sewer revenue loan anticipation note dated November 2, 2012. During the current year, the City paid principal of \$4,740 and interest of \$6,210 on the note.

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

- (a) The note 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 note sinking account for the purpose of making the note principal and interest payments when due.

- (c) A reserve account of \$13,140 should be established and maintained. Additionally monthly transfers equal to \$110 shall be made until the required balance has been accumulated. This account is restricted for paying the principal and interest on the bonds if the sinking account balance is insufficient.
- (d) Annual deposits of \$26,980 are required to be made to a short lived asset account within the Sewer Fund. The account is restricted for deficiencies in the sinking or reserve accounts or capital improvements, extensions or repairs to the system.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the sewer revenue bond and note. The bond and note are payable solely from sewer customer net receipts. Annual interest payments on the bond and note required approximately 57% of net receipts. The total amount of principal and interest remaining to be paid on the bond and note is \$4,197,586. For the current year, principal and interest paid and total customer net receipts were \$139,595 and \$247,038, respectively.

(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 5.95% of their annual covered salary and the City is required to contribute 8.93% 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, 2014 was \$52,221, equal to the required contribution for the year.

(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, 2014, primarily relating to the General Fund and the Enterprise, Water, Sewer and Refuse Disposal Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 25,600
Compensatory	21,600
Sick leave	12,700
Total	<u>\$ 59,900</u>

This liability has been computed based on rates of pay in effect at June 30, 2014.

(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, 2014, the City contributed \$258,540 and plan members eligible for benefits contributed \$21,417 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) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer from	Amount
Capital Projects	Enterprise:	
	Water	\$ 69,282
	Refuse Disposal	90,000
Total		<u>\$ 159,282</u>

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

(9) 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, 2014 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.

(10) 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.

(11) Subsequent Event

In August 2014, the City entered into a loan agreement with a bank to issue a \$190,000 general obligation street improvement note to pay for a road construction project.

(12) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

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, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 443,765	-	443,765
Other city tax	123,900	-	123,900
Licenses and permits	19,013	-	19,013
Use of money and property	6,177	1,359	7,536
Intergovernmental	277,667	605,971	883,638
Charges for service	18,956	1,351,197	1,370,153
Special assessments	1,819	-	1,819
Miscellaneous	42,782	26,899	69,681
Total receipts	934,079	1,985,426	2,919,505
Disbursements:			
Public safety	275,633	-	275,633
Public works	321,413	-	321,413
Culture and recreation	178,734	-	178,734
General government	78,936	-	78,936
Debt service	43,916	-	43,916
Capital projects	266,806	-	266,806
Business type activities	-	2,485,284	2,485,284
Total disbursements	1,165,438	2,485,284	3,650,722
Excess (deficiency) of receipts over (under) disbursements	(231,359)	(499,858)	(731,217)
Other financing sources, net	273,022	363,614	636,636
Excess (deficiency) of receipts and other financing sources over disbursements	41,663	(136,244)	(94,581)
Balances beginning of year	873,401	1,183,869	2,057,270
Balances end of year	\$ 915,064	1,047,625	1,962,689

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
441,812	441,812	1,953
139,816	139,816	(15,916)
3,970	4,870	14,143
4,550	4,550	2,986
215,035	1,215,244	(331,606)
1,392,548	1,398,782	(28,629)
-	1,775	44
16,150	35,690	33,991
<u>2,213,881</u>	<u>3,242,539</u>	<u>(323,034)</u>
254,896	278,177	2,544
252,417	337,074	15,661
166,442	184,538	5,804
80,519	87,002	8,066
45,129	45,129	1,213
-	267,282	476
1,343,756	2,618,558	133,274
<u>2,143,159</u>	<u>3,817,760</u>	<u>167,038</u>
70,722	(575,221)	(155,996)
-	280,971	355,665
70,722	(294,250)	199,669
1,626,820	3,684,090	(1,626,820)
<u>1,697,542</u>	<u>3,389,840</u>	<u>(1,427,151)</u>

City of Leon

Notes to Other Information – Budgetary Reporting

June 30, 2014

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 \$1,674,601. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements exceeded the amount budgeted in the capital projects functions prior to a budget amendment.

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, 2014

	Special Revenue				
	Cemetery Trust	Library Trust	Employee Benefits	Economic Development	Volunteer Firefighters Club
Receipts:					
Property tax	\$ -	-	128,371	-	-
Other city tax	-	-	6,931	-	-
Use of money and property	8	-	86	22	-
Intergovernmental	-	-	-	-	-
Miscellaneous	-	850	-	-	8,681
Total receipts	8	850	135,388	22	8,681
Disbursements:					
Operating:					
Public safety	-	-	81,967	-	4,361
Public works	-	-	59,653	-	-
Culture and recreation	-	850	10,255	-	-
General government	-	-	4,502	-	-
Debt service	-	-	-	-	-
Total disbursements	-	850	156,377	-	4,361
Change in cash balances	8	-	(20,989)	22	4,320
Cash balances beginning of year	3,271	124	74,077	27,584	4,595
Cash balances end of year	\$ 3,279	124	53,088	27,606	8,915
Cash Basis Fund Balances					
Nonspendable:					
Cemetery perpetual care	\$ -	-	-	-	-
Library trust	-	-	-	-	-
Restricted for:					
Employee benefits	-	-	53,088	-	-
Debt service	-	-	-	-	-
Other purposes	3,279	124	-	27,606	8,915
Total cash basis fund balances	\$ 3,279	124	53,088	27,606	8,915

See accompanying independent auditor's report.

Parks and Recreation	Debt Service	Permanent		Total
		Cemetery Perpetual Care	Library	
-	42,856	-	-	171,227
-	2,317	-	-	9,248
-	15	6	-	137
21,900	-	-	-	21,900
-	-	339	-	9,870
21,900	45,188	345	-	212,382
-	-	-	-	86,328
-	-	-	-	59,653
-	-	-	-	11,105
-	-	-	-	4,502
-	43,916	-	-	43,916
-	43,916	-	-	205,504
21,900	1,272	345	-	6,878
-	15,639	47,358	17,707	190,355
21,900	16,911	47,703	17,707	197,233
-	-	47,703	-	47,703
-	-	-	17,707	17,707
-	-	-	-	53,088
-	16,911	-	-	16,911
21,900	-	-	-	61,824
21,900	16,911	47,703	17,707	197,233

City of Leon
Schedule of Indebtedness
Year ended June 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation note:			
Motor grader	Feb 1, 2012	2.50%	\$ 83,000
Garbage packer/police vehicle	Jul 31, 2013	2.65	108,000
Total			
Revenue bonds/note:			
Water	Apr 22, 2005	* 3.00%	\$ 896,000
Sewer, series 2010A	Feb 16, 2010	* 3.00	2,570,957
Sewer, series 2013	Jul 22, 2013	2.125	353,000
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
56,480	-	27,888	28,592	1,240
-	108,000	21,182	86,818	1,924
<u>\$ 56,480</u>	<u>108,000</u>	<u>49,070</u>	<u>115,410</u>	<u>3,164</u>
597,000	-	42,000	555,000	17,910
2,362,061	154,896	54,957	2,462,000	73,688
-	353,000	4,740	348,260	6,210
<u>\$ 2,959,061</u>	<u>507,896</u>	<u>101,697</u>	<u>3,365,260</u>	<u>97,808</u>
<u>338,000</u>	<u>15,000</u>	<u>353,000</u>	<u>-</u>	<u>4,185</u>

Schedule 3

City of Leon

Bond/Note Maturities

June 30, 2014

Year Ending June 30,	Revenue Bonds/Note							Total
	Water Revenue Bonds		Sewer Revenue Bond		Sewer Revenue Note			
	Issued April 22, 2005		Issued Feb 16, 2010		Issued Jul 22, 2013			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2015	3.00%	\$ 43,000	3.00%	\$ 55,000	2.125%	\$ 5,796	103,796	
2016	3.00	45,000	3.00	57,000	2.125	5,920	107,920	
2017	3.00	46,000	3.00	59,000	2.125	6,047	111,047	
2018	3.00	47,000	3.00	61,000	2.125	6,177	114,177	
2019	3.00	49,000	3.00	63,000	2.125	6,309	118,309	
2020	3.00	50,000	3.00	65,000	2.125	6,445	121,445	
2021	3.00	52,000	3.00	67,000	2.125	6,583	125,583	
2022	3.00	53,000	3.00	69,000	2.125	6,724	128,724	
2023	3.00	55,000	3.00	71,000	2.125	6,869	132,869	
2024	3.00	57,000	3.00	74,000	2.125	7,016	138,016	
2025	3.00	58,000	3.00	76,000	2.125	7,166	141,166	
2026		-	3.00	79,000	2.125	7,320	86,320	
2027		-	3.00	81,000	2.125	7,477	88,477	
2028		-	3.00	84,000	2.125	7,638	91,638	
2029		-	3.00	86,000	2.125	7,802	93,802	
2030		-	3.00	89,000	2.125	7,969	96,969	
2031		-	3.00	92,000	2.125	8,140	100,140	
2032		-	3.00	95,000	2.125	8,315	103,315	
2033		-	3.00	98,000	2.125	8,493	106,493	
2034		-	3.00	101,000	2.125	8,675	109,675	
2035		-	3.00	105,000	2.125	8,862	113,862	
2036		-	3.00	108,000	2.125	9,052	117,052	
2037		-	3.00	112,000	2.125	9,246	121,246	
2038		-	3.00	115,000	2.125	9,444	124,444	
2039		-	3.00	119,000	2.125	9,647	128,647	
2040		-	3.00	123,000	2.125	9,854	132,854	
2041		-	3.00	127,000	2.125	10,066	137,066	
2042		-	3.00	131,000	2.125	10,282	141,282	
2043		-		-	2.125	10,502	10,502	
2044		-		-	2.125	10,727	10,727	
2045		-		-	2.125	10,958	10,958	
2046		-		-	2.125	11,193	11,193	
2047		-		-	2.125	11,433	11,433	
2048		-		-	2.125	11,678	11,678	
2049		-		-	2.125	11,929	11,929	
2050		-		-	2.125	12,184	12,184	
2051		-		-	2.125	12,446	12,446	
2052		-		-	2.125	12,713	12,713	
2053		-		-	2.125	12,986	12,986	
2054		-		-	2.125	177	177	
Total		<u>\$ 555,000</u>		<u>\$ 2,462,000</u>		<u>\$ 348,260</u>	<u>3,365,260</u>	

See accompanying independent auditor's report.

City of Leon

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

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		\$ 472,329
Community Facilities Loans and Grants	10.766		8,800
Total direct			481,129
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	235,676
U.S. Department of Transportation:			
Iowa Department of Public Safety:			
State and Community Highway Safety Grant	20.602	PAP 14-402-MOOP, Task 29-60-00	3,607
Total indirect			239,283
Total			\$ 720,412

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



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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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 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, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 2, 2014. Our report expressed unmodified 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.

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-14 through II-C-14 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-14 and II-E-14 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 certain immaterial instances of non-compliance or other matters which are 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, 2014 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

December 2, 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, 2014. 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 the 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, 2014.

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

December 2, 2014

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

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

- (a) Unmodified 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.

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-14 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.

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 documented by the signature or initials of the reviewer and the date of the review.

Response –

- (1) We will segregate duties as follows: the Administrative Assistant opens the mail as primary, Deputy Clerk as secondary and the City Clerk as third. The Administrative Assistant will sort the mail/drop box and enter the payments. The Deputy Clerk will verify random cash payments once per week. When balancing the cash drawer the Administrative Assistant counts the cash, the Deputy Clerk counts the checks and the City Clerk counts the total deposit and drawer to ensure the correct balance. The Deputy Clerk will check to make sure the deposit matches the City records after the Administrative Assistant returns from bank.
- (2) We will segregate duties as follows: the Administrative Assistant will alphabetize claims and update billing information. The Deputy Clerk will review claims for proof of receipt or bill. The City Clerk will review coded claims and verify receipts. The Deputy Clerk will enter the claims in accounts payable and the Mayor and City Clerk will sign the checks. The City Council approves the claims. We are looking at changing the policy of how claims are handled. The City Council has established an Audit Committee comprised of two Council Members and the Mayor. The City now approves claims at each City Council meeting rather than monthly. Two signatures are still required on all checks.
- (3) We will segregate duties as follows: the Deputy Clerk will enter the work orders for new or final accounts and run the utility bills. The Administrative Assistant will enter most utility account receipts, runs reminder notices, handle shut-off notices and oversee the payment arrangement spreadsheet. The City Clerk will oversee the new water payment reconciliation and deposit information.

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(4) We will segregate duties as follows: the Mayor will review, initial and date all employee timesheets. He will also continue to review and sign all department head timesheets. The Audit Committee will be reviewing the payroll records quarterly. Two signatures will continue to be required to sign all checks.

Conclusion – Response accepted.

II-B-14 Utility Billing Reconciliation – While a Utility billing reconciliation was prepared, the reconciliation was not supported and compared to collections, billings and delinquent accounts.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts monthly. The City Council or a City Council-designated independent person should review the reconciliations and monitor delinquent accounts. Reviews of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

Response – City staff are coordinating with Data Technologies to provide the necessary documentation and reports. We believe the process has been determined to monthly reconcile what is billed, collected and what is delinquent. The reconciliation will be reviewed and signed off by the Audit Committee.

Conclusion – Response accepted.

II-C-14 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 to better account for what is received in the drop box and the mail and be able to cross reference it with what is entered into the system. The Deputy Clerk will also verify random cash payments weekly.

Conclusion – Response accepted.

II-D-14 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 as well as the City IT company to determine the best way the City can be operational in the event of a disaster plan and establish a policy for restricting non-City related software or uses.

Conclusion – Response accepted.

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

II-E-14 Journal Entries – Evidence did not exist to document 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 documented by the signature or initials of the reviewer and the date of review.

Response – The City Clerk currently views the month end balancing reports and documentation prior to printing the necessary reports which are provided to the City Council for approval. The City has established an Audit Committee comprised of two City Council members and the Mayor. The Audit Committee will review transactions and reports which will be dated and initialed. The Audit Committee is now actively reviewing the reports and will continue to do so monthly directly before the first Council meeting of each month.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

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, 2014

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-14 Certified Budget – Disbursements exceeded the amount budgeted in the capital projects function prior to a budget amendment. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – We realized a budget amendment should have been done prior to the capital project funds being expended and will make greater efforts to prevent this from happening in the future.

Conclusion – Response accepted.

IV-B-14 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-14 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-14 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-14 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-14 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

IV-G-14 Deposits and Investments – Except a resolution naming official depositories 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

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

- IV-H-14 Revenue Bonds – The provisions of the water revenue bonds require water user rates be established at a level which produces and maintains net receipts at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

During the year ended June 30, 2014, the City was not in compliance with the net receipt requirement for the water revenue bonds as required by the bond resolution.

Recommendation – The City should ensure water user rates are established at a level which produces net receipts of 110% of the annual principal and interest payments on the bonds.

Response – We will monitor the rates to ensure net receipts meet the requirement.

Conclusion – Response accepted.

- IV-J-14 Payment of General Obligation Notes – Certain general obligation notes were paid from the Enterprise, Refuse Disposal Fund. Chapter 384.4 of the Code of Iowa states, in part, “Money’s pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the Enterprise, Refuse Disposal Fund to the Debt Service Fund for future funding contributions. Payment of the notes should then be made from the Debt Service Fund.

Response – In the future, transfers will be made from the Enterprise, Refuse Disposal Fund to the Debt Service Fund.

Conclusion – Response accepted.

City of Leon

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Katherine L. Rupp, CPA, Senior Auditor II
Ryan D. Baker, Staff Auditor
Megan E. Irvin, Staff Auditor
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