



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

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE

June 27, 2017

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515/281-5834

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

The City's receipts totaled \$2,617,481 for the year ended June 30, 2016. The receipts included \$523,865 of property tax, \$1,408,957 of charges for service, \$424,520 of operating grants, contributions and restricted interest, \$130,837 of local option sales tax, \$1,184 of unrestricted interest on investments, \$92,000 of note proceeds and \$36,118 of other general receipts.

Disbursements for the year ended June 30, 2016 totaled \$2,617,497 and included \$466,597 for public works, \$313,128 for public safety and \$231,092 for culture and recreation. Also, disbursements for business type activities totaled \$1,425,956.

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 <https://auditor.iowa.gov/reports/1621-0251-B00F>.

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**CITY OF LEON**

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

**JUNE 30, 2016**

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**City of Leon**

**Officials**

**(Before January 2016)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Allen Simmonds	Mayor	Jan 2016
Sharon South	Mayor Pro tem	Jan 2016
Joseph Stephens	Council Member	Jan 2016
Troy Armstrong	Council Member	Jan 2018
Elmer Easton	Council Member	Jan 2018
Sue Kelly	Council Member	Jan 2018
Greg Crocker	City Administrator	Indefinite
Erik Fisk	Attorney	Indefinite

**(After January 2016)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Allen Simmonds	Mayor	Jan 2020
Joseph Stephens	Mayor Pro tem	Jan 2020
Troy Armstrong	Council Member	Jan 2018
Elmer Easton	Council Member	Jan 2018
Sue Kelly	Council Member	Jan 2018
Darlene Fuller	Council Member	Jan 2020
Greg Crocker	City Administrator	Resigned Jun 2016
Erik S. Fisk	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, 2016, 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 Modified 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, 2015.

### Modified 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, 2015, 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, 2016, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### Basis of Accounting

As discussed 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 3, 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, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 28 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 June 14, 2017 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

June 14, 2017

**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, 2016

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>			
Governmental activities:			
Public safety	\$ 313,128	12,610	37,768
Public works	466,597	4,212	251,887
Culture and recreation	231,092	40,057	128,422
General government	126,619	9,720	6,443
Debt service	54,105	-	-
Total governmental activities	1,191,541	66,599	424,520
Business type activities:			
Water	674,389	562,668	-
Sewer	471,325	483,760	-
Refuse disposal	280,242	295,930	-
Total business type activities	1,425,956	1,342,358	-
Total	\$ 2,617,497	1,408,957	424,520
<b>General Receipts:</b>			
Property and other city tax levied for:			
General purposes			
Debt service			
Local option sales tax			
Cable franchise fees			
Commercial/industrial tax replacement			
Unrestricted interest on investments			
Bond proceeds			
Miscellaneous			
Sale of capital assets			
Total general receipts			
Change in cash basis net position			
Cash basis net position beginning of year			
Cash basis net position end of year			
<b>Cash Basis Net Position</b>			
Restricted:			
Nonexpendable:			
Cemetery perpetual care			
Library permanent fund			
Expendable:			
Streets			
Employee benefits			
Debt service			
Local option sales tax			
Other purposes			
Unrestricted			
<b>Total cash basis net position</b>			

See notes to financial statements.

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Net (Disbursements) Receipts and  
Changes in Cash Basis Net Position

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Governmental Activities	Business Type Activities	Total
(262,750)	-	(262,750)
(210,498)	-	(210,498)
(62,613)	-	(62,613)
(110,456)	-	(110,456)
(54,105)	-	(54,105)
(700,422)	-	(700,422)
-	(111,721)	(111,721)
-	12,435	12,435
-	15,688	15,688
-	(83,598)	(83,598)
(700,422)	(83,598)	(784,020)

490,759	-	490,759
33,106	-	33,106
130,837	-	130,837
12,190	-	12,190
15,382	-	15,382
400	784	1,184
92,000	-	92,000
3,546	-	3,546
5,000	-	5,000
783,220	784	784,004
82,798	(82,814)	(16)
962,990	1,059,310	2,022,300
\$ 1,045,788	976,496	2,022,284

\$ 48,451	-	48,451
17,707	-	17,707
80,796	-	80,796
67,126	-	67,126
-	29,350	29,350
471,469	-	471,469
20,566	-	20,566
339,673	947,146	1,286,819
\$ 1,045,788	976,496	2,022,284

City of Leon

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

As of and for the year ended June 30, 2016

	Special Revenue		
	General	Road	Employee Benefits
Use Tax			
Receipts:			
Property tax	\$ 308,812	-	157,992
Other city tax	15,827	-	8,128
Licenses and permits	16,989	-	-
Use of money and property	5,645	-	11
Intergovernmental	50,327	244,316	4,898
Charges for service	23,207	-	-
Special assessments	3,546	-	-
Miscellaneous	161,498	-	-
Total receipts	585,851	244,316	171,029
Disbursements:			
Operating:			
Public safety	242,393	-	68,353
Public works	13,234	272,432	83,457
Culture and recreation	211,569	-	11,798
General government	111,705	-	14,914
Debt service	-	394	-
Total disbursements	578,901	272,826	178,522
Excess (deficiency) of receipts over (under) disbursements	6,950	(28,510)	(7,493)
Other financing sources:			
Note proceeds	-	-	-
Sale of capital assets	5,000	-	-
Total other financing sources	5,000	-	-
Change in cash balances	11,950	(28,510)	(7,493)
Cash balances beginning of year	329,397	109,306	74,619
Cash balances end of year	\$ 341,347	80,796	67,126
<b>Cash Basis Fund Balances</b>			
Nonspendable - Cemetery perpetual care	\$ -	-	-
Nonspendable - Library			
Restricted for:			
Streets	-	80,796	-
Employee benefits	-	-	67,126
Local option sales tax	-	-	-
Other purposes	-	-	-
Unassigned	341,347	-	-
Total cash basis fund balances	\$ 341,347	80,796	67,126

See notes to financial statements.

Local Option Sales Tax	Capital Projects	Nonmajor	Total
-	-	31,537	498,341
130,837	-	1,569	156,361
-	-	-	16,989
168	1	35	5,860
-	-	946	300,487
-	-	-	23,207
-	-	-	3,546
-	-	11,050	172,548
131,005	1	45,137	1,177,339
-	-	2,382	313,128
5,778	91,696	-	466,597
-	-	7,725	231,092
-	-	-	126,619
-	-	53,711	54,105
5,778	91,696	63,818	1,191,541
125,227	(91,695)	(18,681)	(14,202)
-	92,000	-	92,000
-	-	-	5,000
-	92,000	-	97,000
125,227	305	(18,681)	82,798
346,242	(1,228)	104,654	962,990
471,469	(923)	85,973	1,045,788
-	-	48,451	48,451
-	-	17,707	17,707
-	-	-	80,796
-	-	-	67,126
471,469	-	-	471,469
-	-	20,566	20,566
-	(923)	(751)	339,673
471,469	(923)	85,973	1,045,788

**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, 2016

	Enterprise			Total
	Water	Sewer	Refuse Disposal	
Operating receipts:				
Charges for service	\$ 544,479	483,752	287,786	1,316,017
Miscellaneous	18,189	8	8,144	26,341
Total operating receipts	562,668	483,760	295,930	1,342,358
Operating disbursements:				
Business type activities	477,224	322,957	271,924	1,072,105
Excess of operating receipts over operating disbursements	85,444	160,803	24,006	270,253
Non-operating receipts (disbursements):				
Interest on investments	435	284	65	784
Debt service	(55,240)	(148,368)	(8,318)	(211,926)
Capital projects	(141,925)	-	-	(141,925)
Net non-operating receipts (disbursements)	(196,730)	(148,084)	(8,253)	(353,067)
Change in cash balances	(111,286)	12,719	15,753	(82,814)
Cash balances beginning of year	421,658	559,082	78,570	1,059,310
Cash balances end of year	\$ 310,372	571,801	94,323	976,496
<b>Cash Basis Fund Balances</b>				
Restricted for debt service	\$ 4,514	24,836	-	29,350
Unrestricted	305,858	546,965	94,323	947,146
Total cash basis fund balances	\$ 310,372	571,801	94,323	976,496

See notes to financial statements.

City of Leon

Notes to Financial Statements

June 30, 2016

**(1) Summary of Significant Accounting Policies**

The City of Leon is a political subdivision of the State of Iowa located in the Decatur County. It was first incorporated in 1858 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation and general government services. The City also provides water, sewer and refuse disposal utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Leon has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Decatur County Assessor's Conference Board, Decatur County Emergency Management Commission, Wayne, Ringgold and Decatur County Solid Waste Management Commission and Decatur County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The 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 receipts, 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 nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance 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 governmental 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 the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefits Fund is used to account for tax levies to be used for employee benefits such as health insurance.

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 program. 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, 2016, disbursements exceeded the amounts budgeted in the public safety and debt service functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2016 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 ensure 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. 72.

**(3) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation notes, and revenue bonds/notes are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Bonds/Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 57,066	7,204	111,036	85,777	168,102	92,981
2018	59,154	5,702	114,166	83,071	173,320	88,773
2019	37,000	4,298	118,298	80,287	155,298	84,585
2020	38,500	3,330	121,433	77,405	159,933	80,735
2021	20,000	2,326	125,572	74,440	145,572	76,766
2022-2026	65,000	3,584	627,033	324,432	692,033	328,016
2027-2031	-	-	470,957	251,533	470,957	251,533
2032-2036	-	-	550,320	178,050	550,320	178,050
2037-2041	-	-	644,173	91,957	644,173	91,957
2042-2046	-	-	184,567	16,063	184,567	16,063
2047-2051	-	-	59,566	6,134	59,566	6,134
2052-2054	-	-	26,924	629	26,924	629
Total	\$ 276,720	26,444	3,154,045	1,269,778	3,430,765	1,296,222

### Revenue Bonds/Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$896,000 of water revenue bonds issued in April 2005. Proceeds from the bonds provided financing for the construction of a water treatment plant. The bonds are payable solely from water customer net receipts and are payable through 2025. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. Annual principal and interest payments on the bonds required approximately 63% of net receipts. The total principal and interest remaining to be paid on the bonds is \$509,490. For the year ended June 30, 2016, principal and interest paid and total customer net receipts were \$53,960 and \$85,444 respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,570,957 and \$353,000 of sewer revenue bonds/notes issued in February 2010 and July 2013, respectively. Proceeds from the bonds/notes provided financing for the construction of improvements to the sewer treatment plant. The bonds/notes are payable solely from sewer customer net receipts and are payable through 2054. The interest rates on the February 2010 and July 2013 issues are 3% and 2.125% per annum, respectively. The February 2010 agreement also requires the City to annually pay a .25 servicing fee on the outstanding principal balance. Annual principal and interest payments on the bonds/notes required approximately 89% of net receipts. The total principal and interest remaining to be paid on the notes is \$3,914,333. For the current year, principal and interest paid and total customer net receipts were \$142,350 and \$160,803, respectively.

The resolutions providing for the issuance of the revenue bonds/notes issued includes the following provisions:

- (a) The bonds/notes will only be redeemed from the future earnings of the enterprise activity and the bond/note 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 Fund for the purpose of making the bond principal and interest payments when due.
- (c) The City will establish water and sewer rates sufficient to meet the operation and maintenance expenses of the water and sewer systems 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/notes falling due in the same year.
- (d) A sewer 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.
- (e) 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 had not established a short lived asset account as required.

**(4) Pension Plan**

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$54,518.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$327,776 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.0066345%, which was a decrease of 0.0003149% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$32,036, \$76,355 and \$98,207, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	632,066	327,776	71,009

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

**(5) 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 1 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 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 are \$709 for single coverage and \$1,771 for family coverage. For the year ended June 30, 2016, the City contributed \$190,253 and plan members eligible for benefits contributed \$19,352 to the plan.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, compensatory time 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 time and sick leave payable to employees at June 30, 2016, primarily relating to the General Fund and the Enterprise, Water, Sewer and Refuse Disposal Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 17,100
Compensatory time	15,300
Sick leave	9,500
Total	\$ 41,900

This liability has been computed based on rates of pay in effect at June 30, 2016.

**(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) Commitments**

In June 2016, the City entered in a contract for the roadway maintenance in the amount of \$201,956. The contract will be paid as work on the project progresses.

**(9) Deficit Balances**

The Special Revenue, Library Trust Fund had a deficit balance of \$589 at June 30, 2016. The deficit balance was a result of the Library Board approving disbursements prior to the availability of funds. The deficit will be eliminated by a transfer from the General Fund.

The Debt Service Fund had a deficit balance of \$162 at June 30, 2016. The deficit will be eliminated by future tax collections.

The Capital Project Fund had a deficit balance of \$923 at June 30, 2016. The deficit will be eliminated by a transfer from the General Fund.

**(10) New Accounting Pronouncement**

The City of Leon adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

**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, 2016

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 498,341	-
Other city tax	156,361	-
Licenses and permits	16,989	-
Use of money and property	5,860	784
Intergovernmental	300,487	-
Charges for service	23,207	1,316,017
Special assessments	3,546	-
Miscellaneous	172,548	26,341
Total receipts	1,177,339	1,343,142
Disbursements:		
Public safety	313,128	-
Public works	466,597	-
Culture and recreation	231,092	-
General government	126,619	-
Debt service	54,105	-
Business type activities	-	1,425,956
Total disbursements	1,191,541	1,425,956
Excess of receipts over disbursements	(14,202)	(82,814)
Other financing sources, net	97,000	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	82,798	(82,814)
Balances beginning of year	962,990	1,059,310
Balances end of year	\$ 1,045,788	976,496

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
498,341	492,910	492,910	5,431
156,361	120,298	137,718	18,643
16,989	18,480	18,480	(1,491)
6,644	4,200	10,748	(4,104)
300,487	248,434	257,518	42,969
1,339,224	1,417,210	1,427,229	(88,005)
3,546	1,200	1,751	1,795
198,889	17,850	66,281	132,608
2,520,481	2,320,582	2,412,635	107,846
313,128	242,243	312,019	(1,109)
466,597	642,571	514,005	47,408
231,092	172,394	240,779	9,687
126,619	93,070	131,837	5,218
54,105	40,106	40,106	(13,999)
1,425,956	1,344,431	1,556,302	130,346
2,617,497	2,534,815	2,795,048	177,551
(97,016)	(214,233)	(382,413)	(285,397)
97,000	185,000	350,783	(253,783)
(16)	(29,233)	(31,630)	31,614
2,022,300	1,939,765	1,939,765	82,535
2,022,284	1,910,532	1,908,135	114,149

City of Leon

Notes to Other Information – Budgetary Reporting

June 30, 2016

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 Funds, 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 \$260,233. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public safety and debt service functions.

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City of Leon

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System  
Last Fiscal Year\*  
(In Thousands)

Other Information

	<u>2016</u>
City's proportion of the net pension liability	0.0066345%
City's proportionate share of the net pension liability	\$ 328
City's covered-employee payroll	\$ 565
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	58.05%
IPERS' net position as a percentage of the total pension liability	85.19%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

**City of Leon**

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City of Leon

Schedule of City Contributions

Iowa Public Employees' Retirement System  
For the Last Two Years\*  
(In Thousands)

Other Information

	2016	2015
Statutorily required contribution	\$ 55	52
Contributions in relation to the statutorily required contribution	(55)	(52)
Contribution deficiency (excess)	\$ -	-
City's covered-employee payroll	\$ 606	565
Contributions as a percentage of covered-employee payroll	9.08%	9.20%

\* City's contributions and covered-employee payroll information for the years ended 2007 to 2014 were not readily available.

See accompanying independent auditor's report.

City of Leon

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

## **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, 2016

	Special Revenue			
	Cemetery Trust	Library Trust	Economic Development	Volunteer Firefighters Club
Receipts:				
Property tax	\$ -	-	-	-
Other city tax	-	-	-	-
Use of money and property	2	-	-	-
Intergovernmental	-	-	-	-
Miscellaneous	-	-	-	3,812
Total receipts	2	-	-	3,812
Disbursements:				
Operating:	-			
Public safety	-	-	-	2,382
Culture and recreation	-	713	-	-
Debt service	-	-	-	-
Total disbursements	-	713	-	2,382
Change in cash balances	2	(713)	-	1,430
Cash balances beginning of year	3,283	124	4,496	7,338
Cash balances end of year	\$ 3,285	(589)	4,496	8,768
<b>Cash Basis Fund Balances</b>				
Nonspendable - Cemetery perpetual care	\$ -	-	-	-
Nonspendable - Library	-	-	-	-
Other purposes	3,285	-	4,496	8,768
Unassigned	-	(589)	-	-
Total cash basis fund balances	\$ 3,285	(589)	4,496	8,768

See accompanying independent auditor's report.

Permanent				
Parks and Recreation	Debt Service	Library	Cemetery Perpetual Care	Total
-	31,537	-	-	31,537
-	1,569	-	-	1,569
-	9	-	24	35
-	946	-	-	946
6,588	-	-	650	11,050
6,588	34,061	-	674	45,137
-	-	-	-	2,382
7,012	-	-	-	7,725
-	53,711	-	-	53,711
7,012	53,711	-	-	63,818
(424)	(19,650)	-	674	(18,681)
4,441	19,488	17,707	47,777	104,654
4,017	(162)	17,707	48,451	85,973
-	-	-	48,451	48,451
-	-	17,707	-	17,707
4,017	-	-	-	20,566
-	(162)	-	-	(751)
4,017	(162)	17,707	48,451	85,973

City of Leon  
Schedule of Indebtedness  
Year ended June 30, 2016

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Garbage packer/police vehicle	Jul 31, 2013	2.65%	\$ 108,000
Street improvement	Aug 29, 2014	2.72	190,000
Vehicle acquisition	Sep 29, 2015	2.48	92,000
Total			
Revenue bonds/note:			
Water	Apr 22, 2005	* 1.75%	\$ 896,000
Sewer, series 2010A	Feb 16, 2010	* 3.00	2,570,957
Sewer, series 2013	Jul 22, 2013	2.125	353,000
Total			

\* 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
66,213	-	21,493	44,720	1,615
173,000	-	16,000	157,000	4,778
-	92,000	17,000	75,000	1,537
<u>\$ 239,213</u>	<u>92,000</u>	<u>54,493</u>	<u>276,720</u>	<u>7,930</u>
512,000	-	45,000	467,000	8,960
2,407,000	-	57,000	2,350,000	72,210
342,955	-	5,910	337,045	7,230
<u>\$ 3,261,955</u>	<u>-</u>	<u>107,910</u>	<u>3,154,045</u>	<u>88,400</u>

**City of Leon**

City of Leon  
Bond and Note Maturities  
June 30, 2016

General Obligation Notes								
Year Ending June 30,	Garbage Packer Police Vehicle Issued Jul 31, 2013		Street Improvement Issued Aug 29, 2014		Vehicle Acquisition Issued Sept 29, 2015		Total	
	Interest		Interest		Interest			
	Rates	Amount	Rates	Amount	Rates	Amount		
2017	2.65%	\$ 22,066	2.72%	\$ 17,000	2.48%	\$ 18,000	57,066	
2018	2.65	22,654	2.72	18,000	2.48	18,500	59,154	
2019		-	2.72	18,000	2.48	19,000	37,000	
2020		-	2.72	19,000	2.48	19,500	38,500	
2021		-	2.72	20,000		-	20,000	
2022		-	2.72	21,000		-	21,000	
2023		-	2.72	22,000		-	22,000	
2024		-	2.72	22,000		-	22,000	
Total		<u>\$ 44,720</u>		<u>\$ 157,000</u>		<u>\$ 75,000</u>	<u>276,720</u>	

  

Revenue Bonds/Note								
Year Ending June 30,	Water Revenue Bond Issued April 22, 2005		Sewer Revenue Bond Issued Feb 16, 2010		Sewer Revenue Note Issued Jul 22, 2013		Total	
	Interest		Interest		Interest			
	Rates	Amount	Rates	Amount	Rates	Amount		
2017	3.00%	\$ 46,000	3.00%	\$ 59,000	2.125%	\$ 6,036	111,036	
2018	3.00	47,000	3.00	61,000	2.125	6,166	114,166	
2019	3.00	49,000	3.00	63,000	2.125	6,298	118,298	
2020	3.00	50,000	3.00	65,000	2.125	6,433	121,433	
2021	3.00	52,000	3.00	67,000	2.125	6,572	125,572	
2022	3.00	53,000	3.00	69,000	2.125	6,712	128,712	
2023	3.00	55,000	3.00	71,000	2.125	6,856	132,856	
2024	3.00	57,000	3.00	74,000	2.125	7,004	138,004	
2025	3.00	58,000	3.00	76,000	2.125	7,154	141,154	
2026		-	3.00	79,000	2.125	7,307	86,307	
2027		-	3.00	81,000	2.125	7,464	88,464	
2028		-	3.00	84,000	2.125	7,624	91,624	
2029		-	3.00	86,000	2.125	7,788	93,788	
2030		-	3.00	89,000	2.125	7,955	96,955	
2031		-	3.00	92,000	2.125	8,126	100,126	
2032		-	3.00	95,000	2.125	8,300	103,300	
2033		-	3.00	98,000	2.125	8,478	106,478	
2034		-	3.00	101,000	2.125	8,660	109,660	
2035		-	3.00	105,000	2.125	8,846	113,846	
2036		-	3.00	108,000	2.125	9,036	117,036	
2037		-	3.00	112,000	2.125	9,230	121,230	
2038		-	3.00	115,000	2.125	9,428	124,428	
2039		-	3.00	119,000	2.125	9,630	128,630	
2040		-	3.00	123,000	2.125	9,837	132,837	
2041		-	3.00	127,000	2.125	10,048	137,048	
2042		-	3.00	131,000	2.125	10,263	141,263	
2043		-		-	2.125	10,484	10,484	
2044		-		-	2.125	10,709	10,709	
2045		-		-	2.125	10,938	10,938	
2046		-		-	2.125	11,173	11,173	
2047		-		-	2.125	11,413	11,413	
2048		-		-	2.125	11,658	11,658	
2049		-		-	2.125	11,908	11,908	
2050		-		-	2.125	12,163	12,163	
2051		-		-	2.125	12,424	12,424	
2052		-		-	2.125	12,691	12,691	
2053		-		-	2.125	12,963	12,963	
2054		-		-	2.125	1,270	1,270	
Total		<u>\$ 467,000</u>		<u>\$ 2,350,000</u>		<u>\$ 337,045</u>	<u>3,154,045</u>	

See accompanying independent auditor's report.

**City of Leon**



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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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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, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 14, 2017. 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 a significant deficiency.

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 the accompanying Schedule of Findings as items (A) through (C) 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 deficiency described in the accompanying Schedule of Findings as item (D) to be a significant deficiency.

### 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 which 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 the accompanying Schedule of Finding.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 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. 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

June 14, 2017

City of Leon  
Schedule of Findings  
Year ended June 30, 2016

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements.

Condition – Generally, one or two individuals may have control over the following areas for which no compensating controls exist:

- 1) Cash – access and approval of reimbursements.
- 2) Receipts – collection, deposit, opening mail, posting and reconciling.
- 3) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.
- 4) Disbursements – purchasing, invoice processing, reconciling and recording.

Cause – The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The City should review control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports. Independent reviews of financial transactions, reconciliations and reports should be documented by the signature or initials of the reviewer and the date of the review.

Response – The City Administrator will review the internal control processes to obtain the maximum internal control possible with the staffing level in place.

Conclusion – Response acknowledged. Independent reviews of financial transactions, reconciliations and reports should be documented by the signature or initials of the reviewer and the date of the review.

City of Leon

Schedule of Findings

Year ended June 30, 2016

(B) Financial Reporting

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City’s financial statements.

Condition – Commercial/industrial tax replacement receipts were incorrectly reported as property tax receipts rather than intergovernmental receipts and certain miscellaneous receipts were incorrectly posted as intergovernmental receipts in the City’s financial statements. In addition, the City paid \$88,606 for a loader from the General Fund but the note proceeds to purchase the loader were credited to the Capital Projects Fund. Adjustments were subsequently made by the City to properly record the receipts and disbursement.

Cause – City policies do not require and procedures have not been established to provide for an independent review of receipts and disbursements to ensure the City’s financial statements are accurate.

Effect – Lack of City policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the City’s financial statements were necessary.

Recommendation – The City should establish procedures to ensure all receipts and disbursements are properly recorded and reported in the City’s financial statements.

Response – The City Administrator will revamp the City’s procedures to ensure receipts and disbursements are reviewed for proper reporting in the financial statements.

Conclusion – Response accepted.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria – An effective internal control system provides for internal controls related to reconciling utility billings, collections and delinquent accounts to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent accounts.

Condition – Although the City’s utility software generates a monthly reconciliation of utility billings, collections and delinquent accounts, the amounts in the reconciliation are not compared to supporting records. Also, certain reconciling items were not supported and “payments received” on the reconciliation did not agree to receipts per the general ledger. In addition, the monthly reconciliations are not reviewed by an independent person.

City of Leon

Schedule of Findings

Year ended June 30, 2016

Cause – Policies have not been established and procedures have not been implemented to ensure all amounts in the utility reconciliation are compared to and supported by the City’s financial and utility billing records. Also, policies have not been established to require independent review of the reconciliations.

Effect – Inadequate reconciliations can result in unrecorded or misstated utility receipts and improper or unauthorized adjustments and write-offs.

Recommendation – The City should ensure all amounts on the reconciliations of utility billings, collections and delinquent accounts are properly supported. The City Council or other independent person designated by the City Council should review the reconciliations, document the review by signing or initialing and dating the reconciliation and monitor delinquent accounts.

Response – The City will ensure utility reconciliations are properly supported and reviewed. The reviewer will initial and date to document the review.

Conclusion – Response accepted.

(D) Disaster Recovery Plan

Criteria – A disaster recovery plan for financial continuity should include the following:

- Identification of critical applications.
- Identification of steps for recovery of any operating systems for City operations.
- Identification of computer equipment needed for temporary processing.
- Identification of business location(s) which could be used to process critical applications in the event of an emergency, including any applicable written agreements for the use of the locations.
- Requirement to keep a copy of the disaster recovery plan off site.
- Requirement to keep system backups current and off site.
- An inventory of all hardware and components.
- An inventory of all software applications.
- A requirement that copies of all user documentation and policy and procedures manuals be located off site.
- A requirement for extra stock of paper supplies, such as checks, warrants, purchase orders, etc., be located off site.
- Requirement outlining the frequency of testing the disaster recovery plan to identify issues and document the results of testing.

Condition – The City has not adopted a written disaster recovery plan.

Cause – Management has not required written disaster recovery policies addressing financial continuity.

Effect – Lack of a disaster recovery plan could result in the City’s inability to function in the event of a disaster or continue business without interruption.

City of Leon

Schedule of Findings

Year ended June 30, 2016

Recommendation – A written disaster recovery plan should be developed.

Response – The City Administrator will implement a financial continuity disaster recovery plan.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Leon

Schedule of Findings

Year ended June 30, 2016

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public safety and debt service functions. 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.” This appears to be due to employee oversight.

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 – The City Administrator will complete budget amendments as necessary per the Iowa Code.

Conclusion – Response accepted.

- (2) 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.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) 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.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (8) Revenue Bonds and Notes – The City has not established a short lived asset account as required by the sewer revenue note resolution.

Recommendation – The City should establish a short lived asset account and make the required annual deposits.

Response – The City will establish the account in fiscal year 2018.

Conclusion – Response accepted.

City of Leon

Schedule of Findings

Year ended June 30, 2016

- (9) General Obligation Bonds – Certain general obligation bonds were paid from the Enterprise, Refuse Disposal Fund and the Special Revenue, Road Use Tax Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys 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 pay for general obligation debt from the Debt Service Fund, as required. Any funds that supplement payment for general obligation debt should be transferred to the Debt Service Fund.

Response – The City Administrator will ensure all general obligation debt is paid from the Debt Service Fund.

Conclusion – Response accepted.

- (10) Local Option Sales Tax – Prior to July 1 2010, Local Option Sales Tax (LOST) receipts were collected for the construction and maintenance of the swimming pool. On June 30, 2010, the City had \$352,928 of local option sales tax receipts available for pool maintenance. On July 1, 2010, a revised LOST ballot measure was approved changing the allowable use of LOST funds to the construction and maintenance of street improvements, including necessary equipment and the acquisition, demolition and restoration of dangerous and dilapidated properties.

Since July 1, 2010, when the allowable use of LOST receipts changed, the City has pooled LOST receipts and balances into one fund and has not properly tracked the use of LOST receipts or unspent balances for the purposes specified in the LOST ballots.

Recommendation – The City should consult legal counsel to determine whether LOST receipts collected for pool maintenance can be used for the more recent ballot language use of construction and maintenance of street improvements, including necessary equipment and the acquisition, demolition and restoration of dangerous and dilapidated properties.

Response – We will consult legal counsel about this matter.

Conclusion – Response accepted.

- (11) Financial Condition – The Special Revenue, Library Trust, Debt Service and Capital Project Funds had deficit balances at June 30, 2016 of \$589, \$162 and \$923, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficit balances in order to return the funds to a sound financial position.

Response – The deficit in the Special Revenue, Library Trust Fund was due to the Library Board approving disbursements prior to receipt of revenues. The deficit will be eliminated through a transfer from the General Fund. The deficit in the Debt Service Fund will be eliminated through future property tax collections. The deficit in the Capital Project Fund will be eliminated through a transfer from the General Fund.

Conclusion – Response accepted.

City of Leon

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager  
Dorothy O. Stover, Senior Auditor II  
Luke M. Bormann, CPA, Assistant Auditor  
Debora M. Copeland, 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